The MAGAZINE of WALL STREET
and BUSINESS ANALYST

JULY 15, 1950 — 75 CENTS

WHERE DO SECURITIES STAND TODAY?
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By ROGER CARLESON

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Member of Audit Bureau of Circulations

Vol. 86, No. 8 July 15, 1950

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SUBSCRIPTION PRICE—$15.00 a year in advance in the United States and its possessions and Pan-America, Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

West Coast REPRESENTATIVE, A. M. Rothenberg Association, 2412 W. Seventh Street, Los Angeles 5, Calif.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London, B. C. 4 England.

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THE MAGAZINE OF WALL STREET

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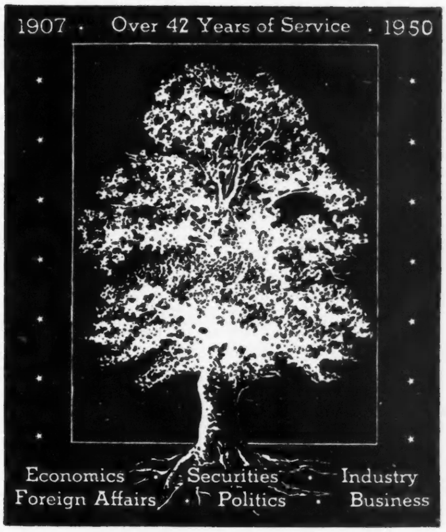


The Trend of Events

X-RAYING THE BOOM . . . We wholly agree with Treasury Secretary Snyder's recent opinion that the strong upturn in business this year is something more than a temporary inventory replenishment. If one contemplates the vigorous public demand for automobiles, homes and other consumer durables, one must perforce come to the conclusion that the consumer durable goods boom is the outstanding feature of the business revival. Maintenance of a high level of capital spending is second in importance, but by no means an insignificant factor of course.

It is interesting to analyze the causes that account for the public urge for consumer durables, or prompt business decisions to invest in capital goods. It would seem to be not just a state of general prosperity or the promise of its continuation; prosperity after all is the result of the boom, not the primary cause. How about the latter?

In this connection, we would like to quote what Joseph Stagg Lawrence has to say about it in the May issue of the Empire Trust Letter. The answer, he believes, is to be found in a peculiar complex of fears—fear of war, fear of inflation, fear of rising industrial costs because of mounting labor power. These, in his opinion, are the extraordinary stimulants which together have kept business operating at boom levels by bringing forward business which ordinarily would have been transacted in the future. The logic of this reasoning is compelling.

The long-standing threat of war has doubtless caused considerable anticipation of consumer demands and may do it even more so now, that the Korean crisis has brought war nearer to us. The same probably goes for industrial managements. And it is difficult to deny that inflation, and the threat of more of it, has not had a similar effect. We see both these forces coming to new life today. Similarly, management can find in accelerated technology the only hope of relief from the constantly rising cost of labor, hence continuation of the capital goods boom.

All of which may be "borrowing from the future" and by the extent that this is so, must we measure the economy's vulnerability whenever demand turns down. Inventory shifts may importantly affect the amplitude of the swings in business, hence they cannot be overlooked or minimized. But the major cycle will be determined by the degree of distortion introduced by the deeper motives cited. Only a major involvement in the war will render this problem temporarily academic.

LOSING PATIENCE . . . A few hours after President Truman's definition of his attitude towards the strike of 4,000 railway switchmen against five midwestern railroads, then approaching the end of its second week, the strike against four of the roads was called off, but continued against the Rock Island system until further pressure ended that tie-up too.

The President's firm stand is to be commended, and even more so the reasoning which prompted it. Rather than

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

using the Korean emergency as the basis for an appeal to the workers—though that must have been foremost in his mind, he let it be known that at long last he is losing patience, like most of the general public, with the growing habit of the unions to ignore recommendations of official fact-finding boards provided under the Railway Labor Act whenever these recommendations fail to meet with union approval.

It is a matter of regret that it took so long to express this viewpoint, for the Railway Labor Act in the past has been flouted again and again with hardly a word of official criticism. Undoubtedly such complacency at this juncture, with the strike having a serious effect on the movement of the mid-western wheat harvest and of iron ore to the nation's steel mills, would not have sat well with the country at large, faced as it is with a grave emergency abroad.

If the unions had not been able to flout every finding and recommendation of impartial fact-finding boards, this latest strike would never have occurred. They would have been much more willing to carry on real negotiations, and their tactics at the bargaining table would have been far different from those they have employed. Instead, even when their original demands were met, they have always demanded more.

If the President's latest statement marks an end of official reluctance to properly apply the laws, it will be a step in the right direction, however belated. In that event we shall doubtless have fewer strikes.

UNWISE . . . The two-cent-a-pound copper import duty went into effect on July 1 by default, because the Senate failed to act on a House-passed bill to extend the present suspension of that duty. Since copper is scarce and large supplies from abroad are needed to meet mounting demand, it seems that this was no time to exclude or render more expensive foreign copper merely because the domestic copper mining industry, not surprisingly, wants the return of former tariff protection.

As it is, already-tight supplies of the red metal are further aggravated by strikes, and Government stockpiling increasingly is becoming a material factor in the demand-supply situation. With defense preparations mounting and a limited shooting war already in progress, copper consumption is likely to rise further. Every facet of the situation should have required a more realistic approach than shown by the Senate.

Because such an attitude was lacking, copper imports not only have become dutiable again, raising the price for imported metal, but—while congressional deliberations continue—there will be confusion and uncertainty for all copper fabricators and perhaps hardship for some of them. Almost certainly, reimposition of the duty will mean higher prices for the ultimate consumers of articles into which copper enters.

Common sense alone would have required prompt action to extend the duty suspension. Apart from that, we are incessantly preaching to the world at large the need to reduce trade barriers. Apparently we are not yet ready to practice what we preach, even when doing so would be to the nation's advantage.

EUROPEAN INTEGRATION . . . Despite the Korean crisis, and perhaps because of it, moves towards European economic integration are multiplying, following announcement of the pace-setting Schuman plan for pooling coal and steel. Because of the latest French Government crisis, discussions of the latter proposal are presently in abeyance, but this doesn't mean that planning has also come to a halt.

Thus French and German farm leaders have recently proposed that the two countries pool their agricultural production along the lines of the Schuman plan. It was suggested that such pooling be done by stages, starting with wheat and wine, and that once France and Germany have got the wheat plan moving, other countries should be asked to join. A Franco-German wheat pool, it was thought, could be put into operation with a minimum of trouble because France is an exporter and Germany an importer of wheat. And the same international authority contemplated for the coal and steel pool could be used to supervise the farm pool as well.

It stands to reason that further Franco-German rapproachment would be a natural consequence of broadening integration moves, a highly desirable result in view of the urgent necessity for western, and particularly for European unity to face the communist threat.

Interestingly, another plan has been catapulted into what promises to become a wide-open competition between rival prescriptions for integration. This one comes from Italy which will propose that a preferential tariff bloc be created in western Europe, patterned after the preferences system of the British Commonwealth and giving "cut rate" tariffs to fellow members of the bloc. This of course is in a distinctly different category than the Franco-German pool proposals. While it would enable western European nations to buy each other's goods at lower prices, it would make it tougher for competing American exporters to sell their wares in Europe.

This latest proposal, nevertheless, will be duly submitted to the Organization for European Economic Cooperation, composed of all Marshall Plan nations. It will join integration schemes recently proposed by planners from other nations, including the Schuman Plan, the Dutch "Stikker Plan" which would remove all quantitative import restrictions, and the "Marjolin Plan" which aims at coordinating post-1952 development plans of western European countries.

Integration, in short, appears to be on the march despite British aloofness and we can only hope that something constructive and practical will come out of the welter of ideas thus far presented. No doubt others will be added in time. Every integration move is naturally bound to have two sides, and certain "black spots", particularly as far as American trade is concerned, can hardly be avoided. Still the overall advantages of economic integration in Europe are so great and so obvious, both from an economic and political standpoint, that objections—however valid they may be—pale into relative insignificance. Directly or indirectly, European integration can only benefit us and the world.

As I See It!

By ROBERT GUISE

WE MEET THE CHALLENGE

It must now be clear that the Korean crisis is not a minor incident. It may remain a localized war, but it will take considerable effort to win it and this will demand men, supplies and equipment in large amounts and the best of all three. The President's authorization to use the draft law and to lift current limitations on the strength of our Armed Forces is eloquent testimony that these requirements, as far as manpower is concerned, are fully recognized. And the debate anent the degree of future mobilization clearly reveals that the potentialities of the situation are not taken lightly.

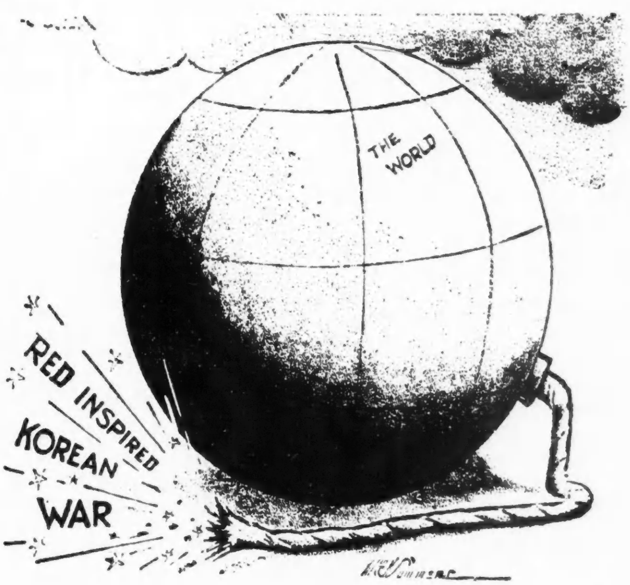
No one knows how much of an effort will be required and, moreover, the build-up of U. S. power in Korea will take considerable time. But we must make sure that our power eventually will be adequate to do the job to which we stand irrevocably committed. We have accepted the challenge and shall meet it. It was the only course that could preserve the world's freedom. Failure to meet the challenge would have meant decline of our power and its eventual disintegration. From every viewpoint, our decision was inevitable and right.

The initial fighting already made it clear that we cannot entertain hopes for a quick and decisive end. We are facing a tough struggle; first to check the communist attack; then to build up our strength to deal with a well-planned offensive; third, to force the invaders back to the 38th parallel and beyond with the inherent threat of having to come to grips with the Chinese communist army as well. Korea, in other words, may remain a sore spot for a long time, even in the event of reasonably early victory.

Up to recently, many Soviet acts since the war's end were mainly aggressive disturbances of peace. The latest move in Korea, clearly Soviet-inspired as it is, marks a stepping up of aggressive tactics which could not be met with mere hand-wringing and protests. In opposing it resolutely and with armed force, we certainly have not chosen a course free from danger of ever-greater conflict, or one that promises quick, sure and easy success. Rather, we have been reluctant to contemplate resort to force until the eleventh hour when the situation had become unbearable and even militarily disadvantageous.

If we could have bought assurance of permanent peace by abandoning South Korea or by admitting Red China to the Security Council, it would have been an attractive bargain but we all know that we could not have done anything of the sort. We have learned by now that the fallacy of appeasement is that it does not appease. Instead it increases the danger of war. Yielding in Korea would merely have accelerated the time table of other "incidents" in numerous parts of the world. The blackmailer respects firmness, just as he gets more demanding and insistent in the absence of resistence.

"PUT OUT THAT FUSE"



Summers in The Buffalo Evening News

The die is cast, but it doesn't necessarily mean that all-out war is inevitable. The Korean fighting is taking on some of the aspects of those large-scale incidents – really undeclared wars—that used to occur between the Soviets and Japan on the Manchurian border prior to World War II. The Soviets indirectly took part in the Spanish civil war but did not declare war on Germany or Italy which supported the opposing side. Korea looks much like another Spain.

There is ground for belief that the Kremlin does not want total war now. They will take such a risk only if chances of winning appear to them better than even, and they might have gotten this conviction, had we acted weakly. They will likely shy away from it now that they have met firm resistance, tempered to the roughness of their own tactics.

If the Soviets wanted to find out how far we will go to help countries attacked by communists, they know now. From the Soviet standpoint, South Korea was an excellent testing ground though for us it probably was the least advantageous area to make a stand. Yet our decision was unavoidable. By putting out the fuse in Korea, we may well save the world from a total conflagration.

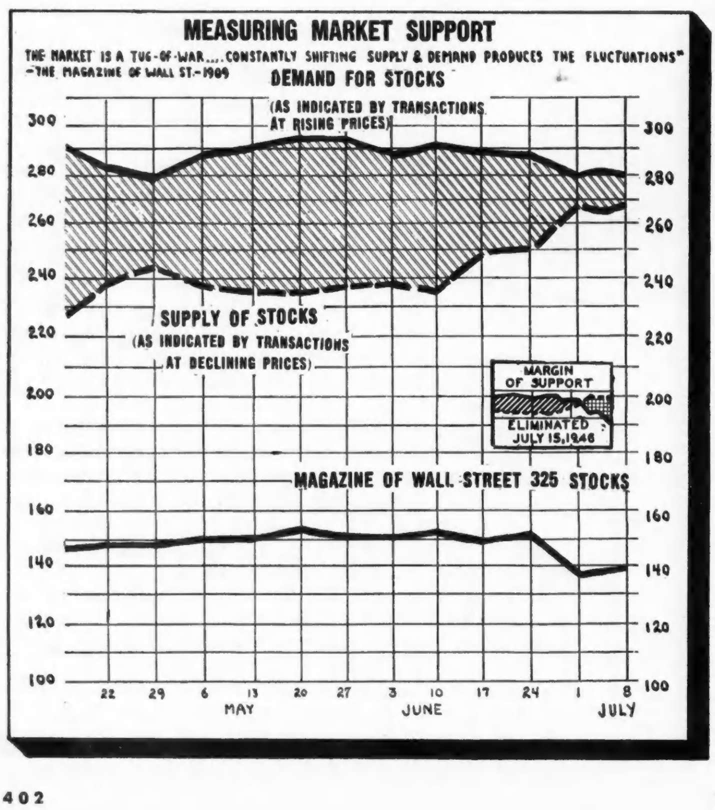
Has Korea Killed The Bull Market?

Belief that the Korean conflict probably will be localized is reflected in the recent steadier market. But pending more light on the international prospect, the range of fluctuation figures to be restricted. Sit tight if you hold good-grade stocks and reasonably adequate reserves. Top-heavy speculative holdings should be pared down on rallies.

By A. T. MILLER

The initial heavy shock administered to the stock market by the "little war" in Korea appears to have been fairly well absorbed. As our press deadline nears, there have been nine full trading sessions since this news startled the world—probably including Russia, which no doubt had not expected American military intervention. On the basis of intra-day lows in the averages, virtually all of the damage done to the market to date was done in the first two sessions of emotional selling. During the past week the market fluctuated nervously, within a narrowing range; with a tendency toward progressive contraction in the volume of transactions; and with a succession of intra-day lows in the Dow-Jones industrial average at approximately the 206 level. The latter compares with the bull-market high to date of 228.38 (average closing prices), recorded June 12.

Of course, it is not yet possible to say with conviction that a firm support level has been reached. The market will take its cue from the "war news" for a further time—perhaps for a considerable time. If the news is frightening, stock prices could go materially lower in an additional selling wave or waves; for the 206 level is by no means a depressed one, compared with various lows during recent years, it leaves some two-thirds of the 12-months' advance of about 67 points in the industrial average intact, and at it there is a large total of cashable profits. If the news is merely discouraging for some additional time—wearing on investors' nerves—it might induce a dribble of selling, with moderate adverse effect on the market.



The Status Of The Bull Market

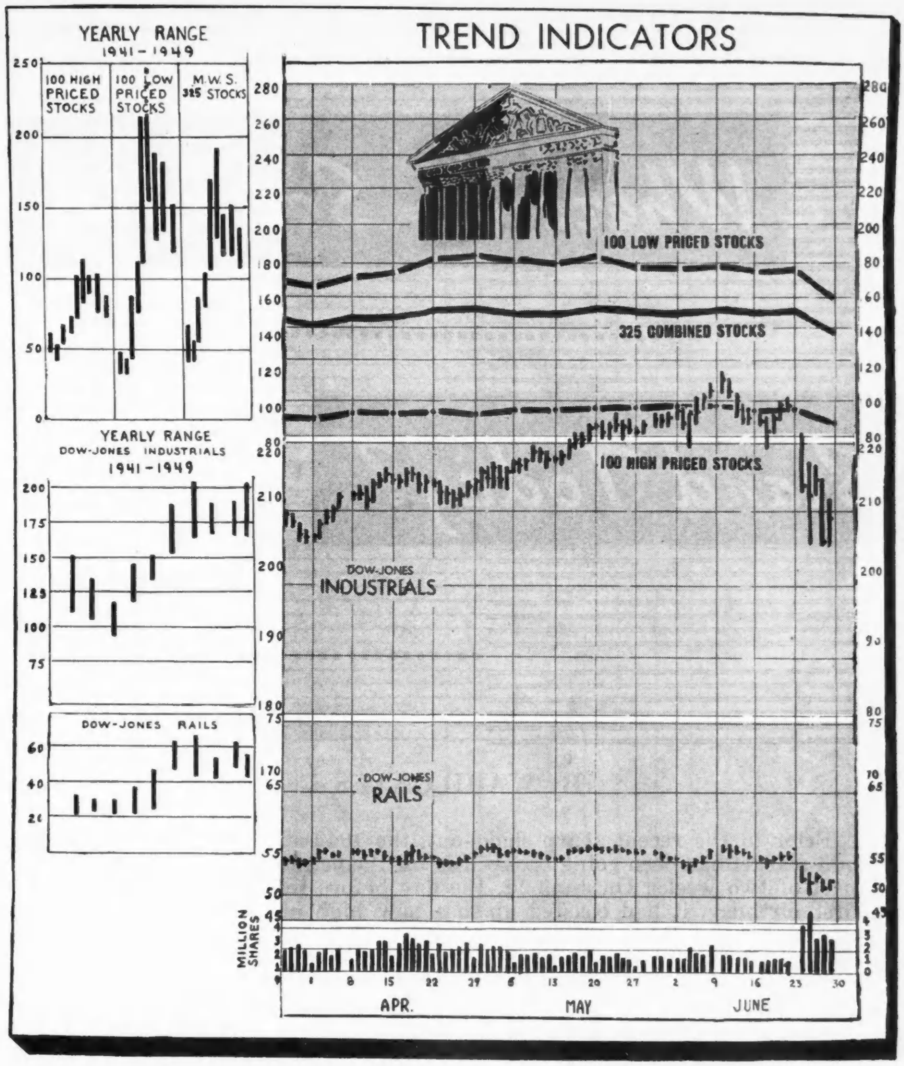
What cannot be foreseen at this writing is a resumption of broad investment demand, such as that which sparked the great preceding advance. The uncertainty, at least for the near term, is too great to permit it. At best, therefore, it may take some time to build a base from which more than relatively small rallies can develop. At the same time, in the present fluid "war situation", it would be decidedly premature to write off the bull market. Under one conceivable set of conditions, it could be resumed in due time. Under another, it would have to be concluded that it terminated at the June 12 high. It is the conditions that will have to be watched, with the technical clues likely to be less reliable than usual as long as great uncertainty persists.

Investors and traders were not frightened into the recent heavy selling by the idea of a localized conflict in Korea. What they feared was that this might be the spark igniting World War III; and many of them are still uncertain and nervous on that central point. They do not need to be told that "big war", in contrast to the limited conflict to date, means a rigidly controlled economy, burdensome taxes, a sharp reduction in the present high total of corporate earnings, and a substantial eventual cut in many of the presently excellent dividends. This is the condition under which you would have to write off the 1949-1950 bull market as past history.

It is our opinion that it is unlikely to develop, at least not at this time. It is incompatible with the whole cunning concept of Russian expansion since the end of the war. It seems about as clear as anything in Russian policy can be that the game has been, and remains, to move into the vacuums left by World War II; and to do so without provoking war with

the United States, at least for an extended time to come. Note that the Red Army has not been directly employed at any point where such employment would mean serious risk of war for Russia. The strategy, as now seen in Korea and repeatedly used elsewhere, is to employ native, non-Russian forces, Russian trained and equipped. Where the opposition is nil or weak, it permits great gain for the Russian orbit, with little or no risk of war for the Russian Government itself. Where there have been failures and retreats – and there have been a number—no fatal loss of "face" for the Kremlin is involved.

To date, the apparent Russian reaction to American intervention in Korea is in keeping with this basic strategy of "unofficial" aggression. If Stalin regarded this as making war between Russia and the United States unavoidable and imminent, we reason that the Red Army would have been on the march into Western Europe by now. What has prevented that—and should continue to prevent it – is Stalin's prudent respect for American industrial might, and our atom bombs and bombers. You can add to that that if Stalin took Russia to war, he could not count on the loyalty of many of his own people and particularly his satellites.



Suppose for the moment, however, that our view is wrong. Suppose that Russia makes some sudden move which casts the die for war. In that case the market readjustment would be violently rapid, totally unlike the 1939-1942 bear market in which investors had a long, dreary period in which to fear and anticipate the worst as regards taxes, economic controls, war prospects, etc. The maximum damage temporarily done to the market would probably be limited by the following factors: (1) Most investors would not be foolish enough to sell sound stocks on or after a violent nose-dive. (2) With World War II experience fresh in mind, investors would allow for a further major monetary inflation, making appropriate stocks more desirable longer-term holdings than cash. (3) From the start there would be more confidence in Russian defeat than was possible with respect to the prospect for German defeat at any time during the 1939-1942 bear market.

The Other Condition

The other condition rests on our premise that the Korean conflict will remain localized. If so, the economic effect will be generally stimulative, how much so depending on its duration, which is now unpredictable, and on the magnitude of the military effort involved in gaining our limited objectives. A few not particularly burdensome controls—steel priorities, for example—might or might not be required. It is too early to say. Prospects for the pending minor tax-revision legislation have been made more uncertain. Without all-out war, the chances for any kind of an excess profits tax being adopted by the present Congress are slight, if not nil. On this assumption of a localized Korean war, business activity will remain at the present high level for an extended time to come, and perhaps go even higher after this month's seasonal slackening; and both corporate earnings and dividends will remain excellent. These are the conditions for an eventual resumption of the 1949-1950 bull market.

At the best, that would take no little time. Investment psychology has been subjected to a severe shock. Until the skies are clearer, nervousness and uneasiness will not be dissipated. In this situation investors will allow for possible Communist-manufactured troubles at other points around the vast perimeter of the Russian orbit. Thus, (*Please turn to page* 444)

Where do Securities Stand Today?

By WARD GATES

Prior to the recent sharp shake-out, the 1949-50 bull market had been going backwards for the better part of two weeks. On June 12, the day before its first birthday, it had coasted up to a new high of 228.38 in the Dow Industrial Average. Then it started the sharpest drop as yet taken this year (excepting the latest and far more severe break), but after testing the early June low, the market rebounded gratifyingly until the Korean crisis rudely interrupted the trend. Before this interruption, another upside test rather than a long expected intermediate reaction seemed in the offing with the possibility of resumption of the general uptrend after no more than a consolidation pause.

The outlook now is changed, at least for the time being. While the market has steadied after moderate recoveries from the recent "panic" lows, early resumption of the uptrend appears highly conjectural under the handicap of the Korean crisis. It is unlikely until the danger of a general conflagration can be assumed to have passed, and until the implications of our intervention in Korea become better defined.

However, the market break, just as the course of the bull market prior to that, has highlighted the great variations in individual stock price movements which have existed right along. There never was a more uneven bull market! The deep cross currents are in sharp contrast to the action of the "Averages," confirming what we have always emphasized in the past, namely, that we had and still have a market of stocks which the Averages have largely failed to reflect.

Hence only study of individual stock price movements can tell us where securities stand today. The Averages hide more than they reveal. Take the Dow Industrials, for instance, which on June 23, prior to the recent break, closed at 224.35 or 5% above their 1946 high, after earlier establishing a new bull market top of 228.38, on June 12. Behind this showing are hidden movements ranging anywhere from a 225% gain over the 1946 high, as in the case of Admiral Corporation, to a loss of 84% as in the case of Northwest Airlines. New highs, in other words, contrast with current prices close to or even below the 1942 lows.

Extreme price variations are usually readily explained by special circumstances but in some cases they are more puzzling. Generally, however, it is a situation that illustrates the fallacy of buying on averages or of regarding averages as a true mirror of the market. They are not. This deficiency applies even to those comprising a larger number of stocks than the Dow Industrials, though they are far more indicative of the general market because of their broader base. Our own 325 Combined Average is a case in point. Whereas the Dow Industrials on June 23 were 5% above their 1946 high, our Combined Average was 21% below this mark and our 100 Low Priced Stock Index was 28% lower. As against this, our 100 High Priced Stock Index, more comparable to the Dow Industrials because of its composition, was only 14% below its 1946 high.

This, as well as the sharp variations in individual stock price movements, in part at least explodes the idea that the market is historically high. The Dow Average may be, although one can cite important reservations, and certain individual stocks may be. But a good many others are not.

What Individual Price Movements Show

To bring out the true picture, we have compiled three tabulations. A glance at the stocks listed in Table I shows that most of them are selling not far from or even under their 1942 lows, and the list is by no means all-inclusive. Nor is it by any means a "cat and dog" list. Generally percentage declines from the 1946 highs have been quite substantial, ranging from 41% to 84% with the majority in the upper range. But because these issues have been in a "bear market" of their own, despite the general bull market, they were less vulnerable to the latest shake-out. At the close of June 27, which saw the initial bottom of the break, few were off as much as two points and most were down only nominally. A handful was virtually unchanged, and some even a trifle higher. Against this, the Dow Industrial

Average had lost fully twelve points.

The conclusion is that most of these laggards are thoroughly shaken down, that their downside risk is considerably below average. This alone, however, doesn't make these stocks attractive unless the adverse factors responsible for their "shake-out" have been remedied or overcome. To ascertain this is a matter of individual analysis.

An Example

As an example, it may be surprising to find on this list such a conservative stock as Bon Ami "A," in the past known for stable earning power and a regular dividend payer since 1898. Yet the stock at 49 sells about 56% below its 1946 high of 112, and substantially below its 1942 low of 72. On basis of the $4 dividend paid last year and maintained so far this year, at the quarterly rate of $1, the stock yields close to 8%. The rub is that earnings have been tending down under the impact of keener competition, and last year came to only $3.64 a share compared with $7.82 in 1948. This is not only a sharp drop, but fails to cover the dividend rate, thus injects uncertainty about the size of future disbursements. Any signs of earnings recovery will doubtless boost the stock, but until the company's handicaps are overcome, it will continue to be a laggard.

As in this case, so in most others there is hardly much difficulty in isolating the cause of lagging market action. The same is true when it comes to shares which have far outstripped the general market.

On table II, we have listed companies whose stocks have been selling near, and chiefly considerably above, their 1946 highs. These are the type of stocks which have been in the forefront of the bull market advance, the blue chip variety or else good grade equities which carry a good deal of investment appeal. Yields have been attractive, and earnings prospects both on a company and industry basis generally promising, if not brilliant. Little wonder they forged far ahead.

Individual market action has been far better than that of the Dow Industrials, and even more so when compared with our broad Combined Average, as a study of the percentage changes from 1946 highs will reveal. Measured against the 5% gain over the 1946 high of the Dow Industrials, or the fact that our broad Average was still 21% below its 1946 high as of June 23, these diverging individual price movements take on considerable significance.

To press home this point, one needn't cite the 255% rise of Admiral Corporation which isn't in the blue chip class anyhow and merely reflects the speculative boom in television stocks. There are other outstanding examples. We find Celanese Corporation 56% above its 1946 high; Cities Service up 90%; Lion Oil up 233%; Minnesota Mining & Manufacturing up 109%; International Paper up 71%; Scott Paper up 52%; and Merck & Co. up 57%. What a contrast with Table I, and with the action of the Averages.

However, because of their sharp previous advance, most of these shares also proved more vulnerable to liquidation which occurred coincident with the Korea crisis. Three and four point losses were rather widespread and in some, the decline went considerably further. Thus at the close of June 27, we find General Motors down eight points, Minnesota Mining nine points, Cities Service and American Can six points, and Allied Chemical nine points. Declines were even sharper at the lows of the day but pared by subsequent partial recoveries. Evidently selling here was not due to a sudden decision that these issues were no longer attractive but to a desire to protect profits which had accumulated in substantial

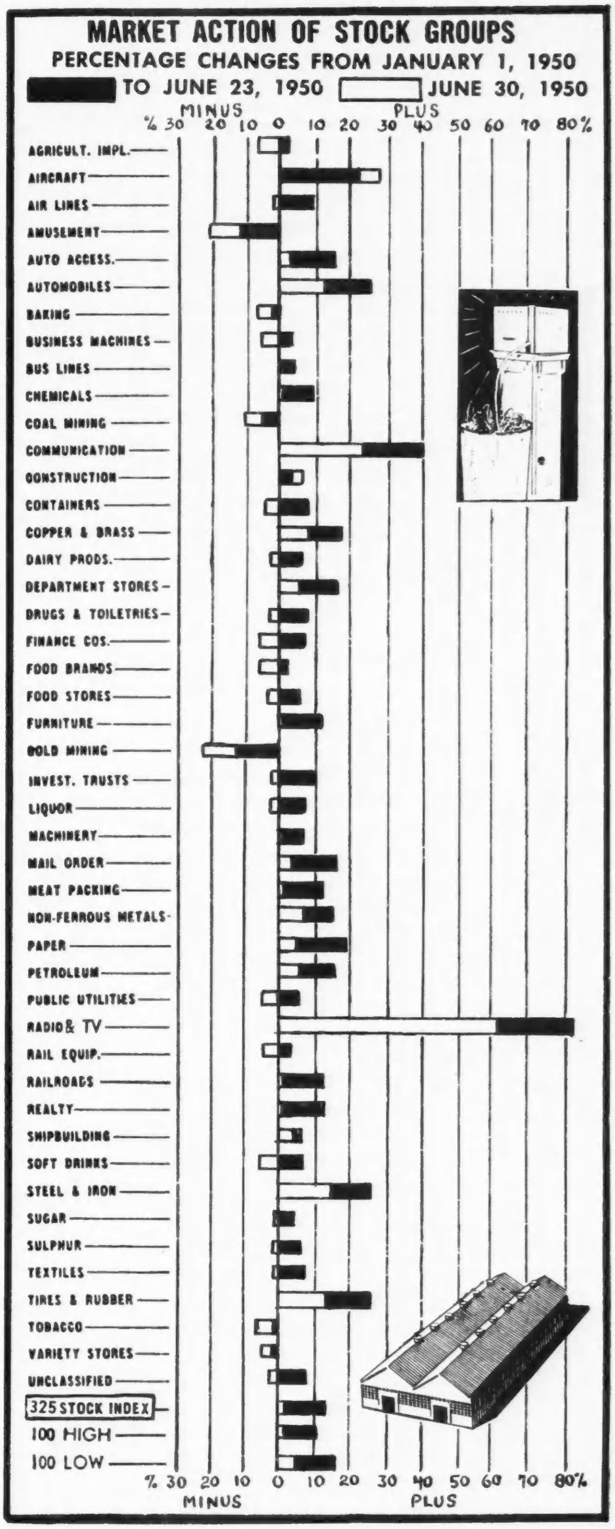


Table I

Cross Currents in Stock Movements
Stocks Selling Near or Under 1942 Lows

	Low 1942	High 1946	6/23/50 (Close)	% Loss From 1946 High to 6/23/50	6/27/50 (Close)
Air Reduction	29½	59¾	23¼	61%	21¾
Allis Chalmers	22	62¾	32¾	47	30¼
American Car & Foundry	20	72⅜	23¾	67	22¾
American Chain & Cable	16	40⅞	24⅛	41	22½
American Crystal Sugar	14	32½	18⅞	42	18
American Machine & F'dry	9½	45¼	15¼	66	13¾
American Stove	7½	38⅞	10½	73	9¼
Baldwin Locomotive	9¾	38⅞	10½	73	9⅞
Bohn Aluminum & Brass	25	73½	25¾	70	24½
Bon Ami "A"	72	112	49¼	56	47⅞
Bridgeport Brass	7⅜	20⅜	10¾	47	10¾
Bullard Co.	16¼	46⅞	20½	56	18½
Cerro De Pasco	27	51¼	19½	62	18⅝
Climax Molybdenum	32¼	44½	19¼	56	18⅞
Cluett Peabody	25⅜	60⅝	27	55	24½
Consolidated Copper Mines	4	10¾	4⅛	61	4
Crucible Steel	23¾	54⅜	20⅜	62	19¼
General Cigar	16⅝	40¾	14⅞	63	14¾
Hamilton Watch	8	26½	11⅜	57	11½
Hayes Industries	5½	20⅜	9⅞	51	9⅜
International Nickel	24⅛	42⅞	28¾	33	28½
Liquid Carbonic	11⅜	43¼	17¾	60	15¾
Loews Inc.	12⅜	41	15¼	62	15
Mack Trucks	13⅜	38⅜	13¾	64	13⅝
Martin, Glenn L.	17¼	45½	13⅛	71	14
Northwest Airlines	8	56½	9⅛	84	8¼
Swift International	19¼	36¼	13⅞	62	12⅞
Sylvania Electric Products	15⅞	41	22¼	45	20
U. S. Hoffman Machinery	4½	47⅜	10⅛	78	9
Waukesha Motor	12	34¾	14	60	13
Dow-Jones Industrials	92.9	212.5	224.35	+ 5%	212.07
Magazine of Wall Street 320 Combined Stocks	41.4	191.7	151.3	—21	138.8
Magazine of Wall Street 100 High Priced Stocks	43.2	112.6	95.9	—14	88.7
Magazine of Wall Street 100 Low Priced Stocks	31.7	248.0	177.0	—28	160.0

degree, and doubtless numerous stop-loss orders—placed for the same reason—were activated by mounting liquidation.

But even in this list there are some interesting exceptions. Dow Chemical survived the onslought of selling with a quarter point net gain as did First National Stores. Procter & Gamble ended up half a point higher. Probably more such instances could be found in a larger cross section. And there are quite a few instances where declines were relatively modrate—far less than in the Dow Industrials. Cases in point are Champion Paper & Fibre, Continental Oil, Freeport Sulphur and West Virginia Pulp & Paper. Again the sample is far from all-inclusive.

A Highly Mixed Showing

In Table III, our largest compilation, we present a substantial cross section of shares of varying quality and consequently of varying price action. Comparisons are made not only with 1942 lows and 1946 highs but also with 1949 lows, showing the extent of advance during the last twelve months, and also the degree of decline during the latest market break up to the close of June 27, and prior to subsequent recovery.

Here we find that the majority is still considerably below their 1946 highs, reflecting the true state of the general market in contrast to the showing of the Dow Industrial Average. Among those, percentage changes on the downside range from 6% in the case of General Electric to 72% in the case of United Airlines, but with the majority in the middle range, which again proves that the market as a whole is far from as high as generally thought. There are also found the usual exceptions as shown in the table.

Despite the more moderate price improvement, all these shares stand substantially above their 1942 lows and, more significantly, have advanced materially from their 1949 lows, frequently outstripping the Dow Industrial Average which on June 23 was 38% above its 1949 low. Outstanding gainers, compared with the latter mark, include Adressograph-Multigraph with a 78% rise; this stock incidentally is also 20% above its 1946 high. Elsewhere we find Certainteed Products up 88%, Hudson Motor up 86%, Illinois Central 80%, International Tel. & Tel. 87%, Johns-Manville 60%, Rheem Manufacturing 90%, Southern Pacific 68%, Studebaker 106%, U. S. Steel 80%, Westinghouse Electric 75%, Boeing Airplane 64%, Douglas Aircraft 62% and Goodyear 56%.

Emphasizing the selective character of the 1949-50

Table II

Cross Currents in Stock Movements
Stocks Selling Near or Above 1946 Highs

	Low 1942	High 1946	6/23/50 (Close)	% Change From 1946 High to 6/23/50	6/27/50 (Close)
Abbott Laboratories	18½	45	51	+ 13%	48½
Admiral Corporation	....	10	35½	+255	31⅝
Allied Chemical	118½	212	248	+ 12	239
American Can	56⅝	106	114½	+ 8	108¼
American Cyanamid	28⅝	60	74⅞	+ 24	69⅛
American Gas & Electric	13⅛	49¾	53	+ 6	50¼
Atlantic Refining	14⅜	51½	54¾	+ 6	50¼
Bethlehem Steel	16½	38¼	37½	— 2	34⅞
Celanese Corp.	6	23⅝	36⅞	+ 56	33⅝
Champion Paper & Fibre	7⅛	34¼	36½	+ 7	35⅛
Chrysler	21⅞	70½	78	+ 10	72½
Cities Service	2⅛	41⅞	78⅞	+ 90	72¾
Continental Oil	17	49¾	70½	+ 39	68¼
Dow Chemical	23⅛	48	67¾	+ 42	68
Du Pont	25⅜	56⅛	79⅛	+ 41	76¾
First National Stores	29¾	70½	71½	+ 1	71¾
Freeport Sulphur	27	61	62½	+ 2	61
General Motors	30	80⅜	96	+ 18	88
Hershey Chocolate	10	35¼	45	+ 27	40
International Paper	3⅞	27½	47	+ 71	43¾
Lion Oil	2½	12⅛	40½	+233	36¾
Merck & Co.	11⅞	38½	60½	+ 57	56½
Minneapolis Hon'w'l Reg.	8¾	34⅛	40½	+ 23	35¾
Minnesota Mining & Mfg.	16	60	125½	+109	116
National Lead	11⅞	40⅝	45½	+ 12	41
National Steel	14½	33¾	40	+ 18	37
Northern Natural Gas	10½	29¾	34⅞	+ 17	32½
Otis Elevator	11½	39½	40½	+ 2	37¾
Philco Corp.	7⅝	47	49⅛	+ 4	43
Proctor & Gamble	28	47½	62	+ 30	62½
Radio Corp. of Amer.	2½	19	21¾	+ 14	19¼
Republic Steel	13⅜	40⅞	38	— 7	35
Scott Paper	25½	61	92¾	+ 52	89
Sears Roebuck	10⅞	49⅝	47	— 5	43⅞
Sharp & Dohme	4⅞	39¾	41½	+ 4	38¾
Skelly Oil	9½	42¾	60	+ 40	53¾
Standard Oil (Calif.)	18	59⅝	70	+ 17	66¾
Standard Oil (N. J.)	30½	78¾	78⅝	....	73¼
Union Carbide & Carbon	19¼	41⅝	48½	+ 16	46
West Virg. Pulp & Paper	10½	53¼	54½	+ 2	52¾
Dow-Jones Industrials	92.9	212.5	224.35	+ 5%	212.07
Magazine of Wall Street 320 Combined Stocks	41.4	191.7	151.3	— 21	138.8
Magazine of Wall Street 100 High Priced Stocks	43.2	112.6	95.9	— 14	88.7
Magazine of Wall Street 100 Low Priced Stocks	31.7	248.0	177.0	— 28	160.0

bull market, there are others which have done far less well. Beechnut Packing has advanced only 3%, Pacific Lighting 7%, Twentieth-Century Fox 6%, Woolworth 12%, Pullman and American Tobacco 13%, Dome Mines 17%, and Corn Products Refining 17%. These as well as others, for which lesser price gains have been listed, definitely belong among the laggards of the general advance. Usually reasons why this is so are not difficult to find.

By the same token, the impact of the latest wave of liquidation has varied greatly. Those with the biggest prior advances usually suffered more substantial losses than others because of the desire to protect profits but there are numerous exceptions, as the table will show. While our sample shows none which came through the selling with net gains, as those cited from Table II, quite some emerged with relatively minor losses. To mention but a few: Best & Co. reveals a net loss of only 1⅛ points, Boeing Airplane was off ⅜ths of a point, Douglas Aircraft ¾ of a point, General Foods ⅞ths of a point, Johns-Manville ½ point, National Cash Register 1⅜ points, National Distillers ⅝ of a point, Phelps Dodge 1⅝ points, and Sperry Corporation ¾ of a point.

Some of these have advanced less than average during the 1949-50 upswing and this doubtless explains their relatively better action during the severe shake-out. There were less profits to take, hence less selling pressure. But others such as the airplane manufacturers cited have done pretty well in the past, yet proved highly resistant to selling pressure. Obviously, even amidst the jitters that prevailed when the Korean crisis broke, the market was quick to recognize a group which should attract public interest on the Korean developments. Aircraft manufacturers have increased backlogs and are expected to report sharply improved earnings this year. Additionally more military orders are now almost certainly in the offing.

Our compilations clearly show the widely divergent price movements of individual stocks, the result of the high degree of selectivity which right along has characterized the stock market in the recent past. This has found expression in advancing as well as in declining periods, as analysis of price movements during the latest break revealed. What we have had was not a general but highly selective bull market, and within it a good many individual bear markets as shown in Table I. Additionally, a large number of well known issues have been straggling.

In other words, bullishness was not indiscriminate. Market favorites were concentrated among the heavy industries and producers of consumer hard goods, and generally in fields that stand to benefit most from the current boom. In this respect, a break-down of individual group action (see accompanying chart) is most illuminating.

Up to June 23, that is prior to the recent market break, biggest above average gains since the start of the year were registered by (*Please turn to page* 440)

Table III

The Varying Degree of Decline from 1946 Highs, and of Advance from 1949 Lows

	Low 1942	High 1946	Low 1949	6/23/50	% Change From 1946 High to 6/23/50	% Change From 1949 Low to 6/23/50	6/27/50 (Close)
Addressograph-Multigraph	10	41¾	27⅞	50	+ 20%	+ 78%	47½
Allied Stores	4	63⅜	25⅛	37¾	— 41	+ 50	35
American Chicle	23	54¾	39⅜	49⅞	— 9	+ 27	48
American Radiator & S. S.	3¾	23	10	15¼	— 35	+ 52	14
American Smelting & Ref.	35½	73¾	39¼	54¼	— 26	+ 38	51¼
American Tobacco	34⅞	100¼	60¼	68¼	— 32	+ 13	66½
American Woolen	3½	70¾	21⅝	26	— 63	+ 20	24½
Beech-Nut Packing	18¼	40⅜	30½	31½	— 22	+ 3	28½
Best & Co.	8¾	52½	23⅛	27¾	— 48	+ 20	26⅝
Boeing Airplane	13⅛	35	17⅝	28⅝	— 24	+ 64	28¼
Burlington Mills	7⅜	29½	13¾	22⅛	— 25	+ 60	20¼
Case, J. I.	14⅞	55	30	42¾	— 21	+ 42	38½
Certainteed Products	1¾	25⅞	9⅛	17¼	— 32	+ 88	15⅞
Commercial Credit	16⅛	59¾	46⅛	63¼	+ 5	+ 36	56
Consolidated Edison	11⅜	36	21½	32½	— 9	+ 52	29⅝
Corn Products	42¼	75¾	57	67⅜	— 11	+ 18	64¾
Dome Mines	8	29¾	12½	14⅝	— 51	+ 17	13¾
Douglas Aircraft	51	108⅞	48⅝	78¾	— 28	+ 62	78
Electric Autolite	20⅝	80½	33⅝	45¼	— 43	+ 34	42¼
General Electric	21½	52	34	48½	— 6	+ 42	46⅝
General Foods	23¾	56⅛	39¼	50¾	— 9	+ 30	49⅞
Goodyear Tire & Rubber	10¼	77	34	53⅛	— 31	+ 56	49¼
Hudson Motor	3½	34½	9	16¼	— 53	+ 86	14½
Illinois Central	5⅝	45½	22½	40⅝	— 11	+ 80	37⅝
International Harvester	13¼	34	22¾	28¾	— 15	+ 25	26½
International Tel & Tel.	1½	31⅞	7½	14	— 56	+ 87	11¾
Johns-Manville	16¾	55¾	30½	48½	— 13	+ 60	48
Kennecott Copper	26⅜	60¼	40	57⅛	— 5	+ 42	55½
Lorillard (P.) Co.	11½	31¾	19⅛	25½	— 19	+ 33	23⅞
May Department Stores	15½	70	38	49⅞	— 28	+ 31	48
Montgomery Ward	23½	104¼	47⅝	57⅝	— 45	+ 21	55½
National Cash Register	11	45½	30½	38⅜	— 16	+ 26	37
National Distillers	5¾	32⅜	17¼	22⅝	— 31	+ 31	22
Pacific Lighting	22½	67½	50	53⅝	— 21	+ 7	50½
Phelps Dodge	22	48	36¼	51⅝	+ 7	+ 42	49
Phillips Petroleum	30	73¼	51⅜	68⅛	— 7	+ 42	64⅜
Pittsburgh Plate Glass	13⅜	48¾	28¾	40¼	— 17	+ 40	37¼
Pullman Co.	20¾	69⅜	30⅛	34¼	— 51	+ 13	32¾
Rheem Mfg.	9½	38	13¼	25¼	— 34	+ 90	22¼
Simmons Co.	11⅞	56⅞	22	31¾	— 44	+ 44	28¾
Southern Pacific	10	70	32½	54¾	— 21	+ 68	52⅜
Sperry Corp.	21⅝	40½	22¾	29¼	— 27	+ 28	28½
Standard Brands	11	55	17¼	22½	— 60	+ 30	21
Studebaker	3¾	38½	16½	34	— 11	+106	30¼
Swift & Co.	20	41⅛	27⅝	36⅞	— 10	+ 33	35½
Twentieth Century-Fox Film	7⅛	63⅞	19⅛	20½	— 68	+ 6	19
United Airlines	7⅞	54¼	10¼	15½	— 72	+ 51	14
U. S. Steel	14¾	32½	20¼	36⅛	+ 9	+ 80	33
Westinghouse Electric	15¾	39¾	20⅝	35⅝	— 10	+ 75	32½
Woolworth	21½	62½	44	49½	— 21	+ 12	47
Dow-Jones Industrials	92.9	212.5	161.6	224.35	+ 5%	+ 38%	212.07
Magazine of Wall Street 320 Combined Stocks	41.4	191.7	108.0	151.3	— 21	+ 40	138.8
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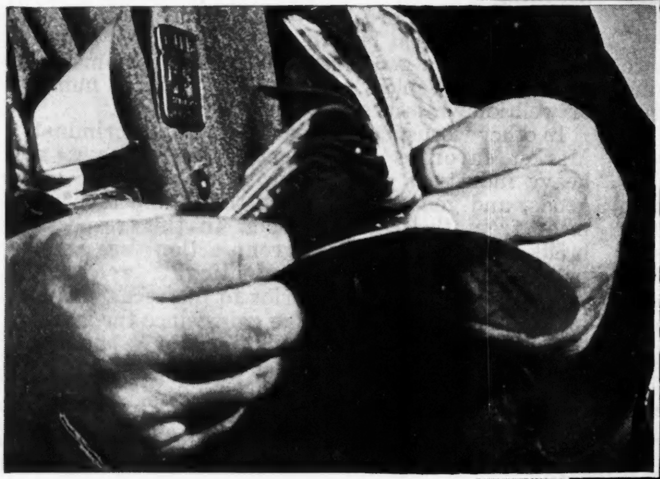

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What's Ahead for PRICES?

—FURTHER INFLATION OR LEVELLING OFF?

By FRANK R. WALTERS

The Korean situation injected a fresh burst of inflationary sentiment into commodity markets that had begun to lag after their long rise since late last year, and has been responsible for a decided shift in emphasis. The prevailing opinion in the markets at the present time is not whether prices are likely to advance or decline in the second half of this year but how much they will rise, with the amount dependent on whether the Korean affair is localized or develops into a full scale shooting war with Russia.

The theory held by many is that Government spending for military purposes will be increased in either event and that this necessarily will be inflationary. There is no doubt that, even if the situation in the Far East quiets down in a short time, defense spending will be stepped up. Cutbacks contemplated in Army and Navy appropriations for the current fiscal year will be restored and Congress may back up its approval of a 70-group Air Force with adequate funds. Increases for defense may be offset partially by cutbacks elsewhere and by higher taxes. The net increase may be comparatively small, not more than a few billion dollars. That is one side of the situation.

If the 38th Parallel becomes the Concord Bridge of World War III, spending for military purposes will go up by leaps and bounds. In such an event, there is no question of the price level rising until Washington imposes price controls. Although there has been talk of rigid controls, the history of the favoritism extended to farmers both in war and peace suggests that complete freezing of prices as of some determined date is highly unlikely in the case of farm products. And, without freezing of farm products prices, price control measures can be only partially effective.

The commonly held assumption is that the commodity price situation already was inflationary when the North and South Koreans began to mix it up and that any increased Government spending will of necessity exert sufficient influence upon the commodity price structure to push the price level much higher. In the commodity futures markets, where most of the price strength since June 26 has been witnessed, there is talk of the BLS price index—now at about 158 percent of its 1926 base—rising to surpass its post-war peak of close to 170 attained in August, 1948.

As we see it, the price situation was not inflationary prior to June 26. Inflationary sentiment, most common in the futures markets where its circulation had attracted a considerable amount of "outside" or speculative interest, was definitely on the wane following the sharp breaks in prices late in May and in early June. The metals markets, which had been literally boiling for several months, had quieted down. With farm products—the most volatile element in the commodity situation—declining and with commodities other than farm products steady, the price level quite apparently was in process of "topping out" following its rise since early this year.

The Pre-Korea Outlook

The outlook for commodity prices prior to the crossing of the now famous 38th Parallel was for a downtrend in the second half of this year and into early 1951 at least, with farm products and foods in the lead but with the probabilities of the decline becoming general by the fourth quarter of the year. There were definite indications that the downtrend

might be sufficiently accelerated towards the end of the year to more than wipe out the comparatively modest rise in the general price level recorded in the first half year.

The rise in commodity prices during the first half of this year, from about 151 on the BLS index to about 157, was the result of a combination of factors that must be understood clearly in order to evaluate the prospect for a reversal of the trend in the second half year.

The winter wheat crop was reduced below preliminary indications by drought in the West. Although rains came in time to check deterioration and improve the prospect a little, the indications nevertheless were that high-priced Government stocks would have to be drawn upon before the 1950-51 season was over. Corn and other grains tended to follow the price rises in wheat. Comparatively warm weather in the cotton belt this past winter followed upon heavy entrance of boll weevil into hibernation and resulted in the heaviest emergence from hibernation in years. With acreage cut back sharply by Federal edict, approximately 22 percent according to preliminary indications, fears were aroused of a very short 1950 cotton crop. The same held true for 1950 cottonseed production, and this stimulated strength in cottonseed oil and in other fats and oils.

Factors Behind the May Rise

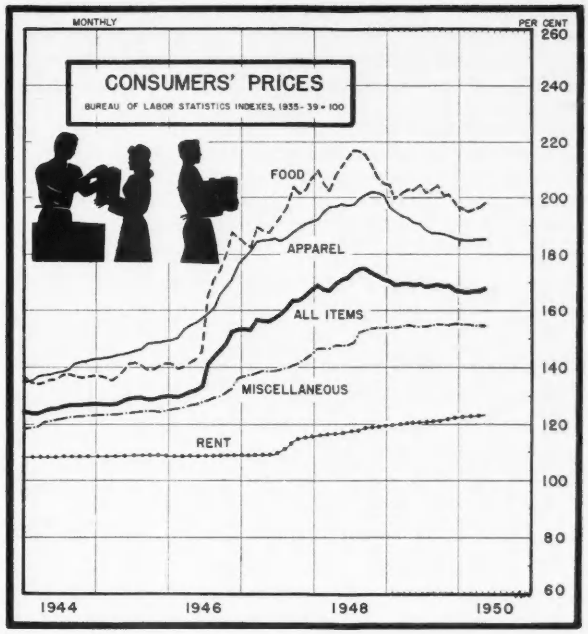
By May, the futures markets—rising steadily on unfavorable crop developments, both actual and feared, and under the influence of "inflationary sentiment" which had been revived to account for strength that traders could not understand but which probably was largely the result of the increased volume of speculative interest – had discounted short crops not yet fully planted in some instances and had even strengthened on calculated tight spot situations that would not develop before the spring of 1951. For example, new crop cotton futures rose to four cents a pound over the expected Government loan level on the 1950 crop before the crop was in the ground.

The coal strike postponed the time when the steel industry, struggling to cut into the order backlog created by the steel strike, foresaw a tapering off of activity. This, with help from Washington that was not entirely in accordance with the facts of the situation, served to create the impression that the business boom would continue "forever". Naturally, this sentiment helped prices.

Auto and Building Boom

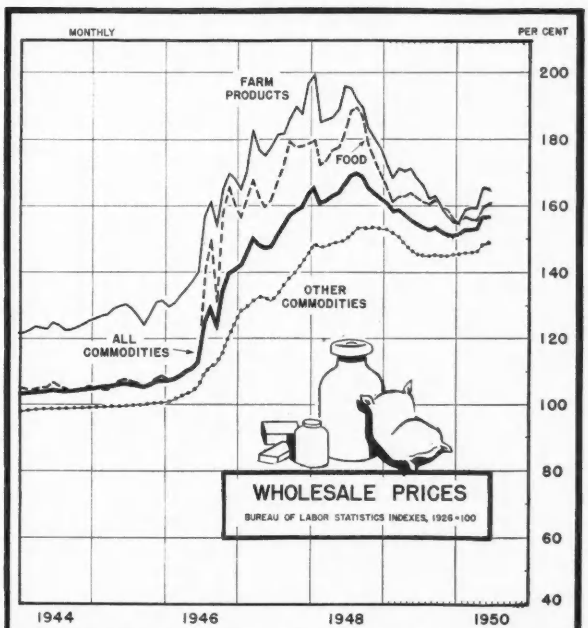
The building boom, given a new burst of life a year ago by the declines in prices of building materials in 1948 and early 1949, got an added lift from easing of mortgage terms. And, prices of building materials were pushed back up again without anyone giving much thought as to whether higher prices might boomerang.

Activity in the automobile industry, stimulated by easing of credit terms, rose despite the long Chrysler strike, and zoomed upward when the strike was settled. Between the building boom, the housing boom, and Government stockpiling for strategic purposes, supplies of nonferrous metals tightened up with the tightening accentuated by buyers extending their forward coverage. Inevitably, prices rose sharply under these combined impacts.



The missing element in the situation, i.e., where consumers would get the money to buy the increased quantities of durable goods that were being produced, was supplied by Government insurance refunds to veterans, concentrated in the first quarter. These were used for down payments on cars and other consumer durable goods to no inconsiderable extent. When such payments fell off sharply in April, so did national income but many retailers met this situation by easing credit terms. The new national slogan became "nothing down, years to pay".

All of this stimulated typical boom psychology, with its attendant effects on prices. Some of the zanier statements issued by otherwise responsible



business men to the effect that the business cycle had been abolished, gave evidence that the boom was near its crest. Interestingly enough, the boom was entirely concentrated in durable goods. While automobile sales soared, nondurable sales slackened. The rise in industrial production during the first half of 1950 was entirely in the durable goods industries. Nondurable goods production moved sidewise for six months and, judged from the retail sales of nondurables, was above the consumer offtake.

A Topping-Out Indicated

By the middle of May, practically all the conditions that indicate the topping out of a price rise had been met. Historically, as in 1948, the end of a commodity price rise often has occurred while the general business picture still was favorable but when the concentration was in durable goods.

Almost like clockwork, the more sensitive commodities began to respond to the signals. Rubber and wool, where advances had been the greatest, began to decline sharply. The grain and cotton markets sagged. Tallow, which never had risen during the general price advance, declined and other fats and oils followed the lower world trend down. The non-ferrous metals markets, which often have continued strong for months after a general commodity price rise has topped out, turned quiet rather suddenly. Sensitive price indices began to decline.

Simultaneously, it began to appear that production of nondurable goods was headed for lower levels in the second half year, with leaders in the steel industry predicting a decline in steel activity to 85 percent of capacity for the last quarter. While the general public was concentrating its attention upon current very high levels of activity in various industries, the commodity markets began in typical fashion to respond to where industry appeared to be headed.

Farm Price Outlook

The outlook, barring unfavorable weather this summer, was for lower farm products prices in response to seasonal improvements in supplies and to a generally lower level of Government price supports or no supports at all for the non-basic crops. Cattle and meats appeared due for further rises this summer owing to seasonal slackening in marketings and slaughter, but with the outlook for definitely lower prices early this fall on unusually large hog and cattle runs. Prices of building materials were seen as easing by late summer. With the outlook for a lower level of production in a number of durable goods industries, nonferrous metals prices seemed likely to meet pressure towards the end of the year.

Price resistance at the consumer level was increasing. Retailers of consumer durable goods were offering deep price cuts, and it was predicted that automobile dealers would be cutting prices by early fall. On all sides, it was becoming increasingly apparent that the level of national income—off after insurance refunds had been completed—was incapable of supporting the high production of goods at high prices and that something had to give.

Against this background, the war news from Korea broke. Rubber, wool, the grains, and soybeans rose sharply. Fats and oils advanced. Primarily, price rises occurred in farm products and in those imported commodities such as rubber and pepper that were likely to become scarce in the event of war. The futures markets have been the center of price strength. Elsewhere, prices have held about unchanged with buyers showing no willingness to add to their commitments. The nonferrous metals—all strategic materials—have not advanced. In fact, lead —a war material if ever there was one—declined while much less important commodities were rising in the futures markets.

The various commodity price indices, sagging early in June, reversed their trends to break through into the highest areas in about a year and a half. True, most of the upturn occurred in speculative markets, but spot or cash commodities were influenced thereby. Although the odds, as reported by a well-known Washington source, were quoted as 5 to 3 against there being a general war, traders in the futures markets appeared to be operating on the theory that there would be a war. That was all right for them since they could liquidate quickly in the event of a change in the situation, something which buyers of actual commodities could not do.

Absence of Corollary Price Strength

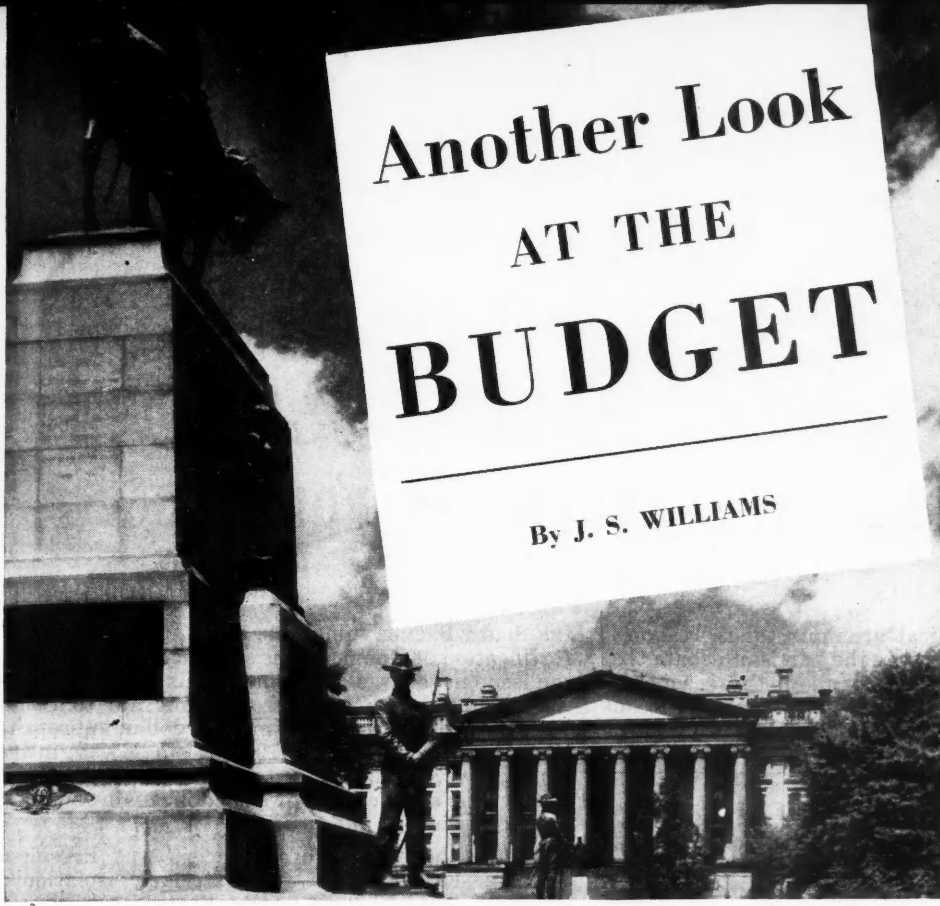
Price increases in the more volatile or speculative areas, if continued long enough, often have touched off price strength in the more sluggish price areas. But not unless buyers of various commodities, convinced that they too are going to follow the more sensitive commodities upward, have begun to extend commitments and thus caused tightening up of supplies. That has not been happening to any extent in the present instance.

Most buyers are so well covered as a result of purchases made this spring that they can sit this one out for a while. In fact, just prior to the resumption of the price uptrend after the war news broke, some buyers were beginning to wish that they had been a little more conservative in their purchasing. And there hasn't been any rush to buy at the retail level that would justify additional commitments in the raw materials markets at this time.

Those who expect prices to rise even if the Korean situation is localized are looking to the civilian economy to provide much of the impetus. Their reasoning is that, with war apparently in the offing, there will be a great demand from consumers for goods of all kinds—particularly durable goods—that eventually will be rationed or non-existent. This happened in 1940 and 1941 and was the source of a large part of the pre-Pearl Harbor rise in business, employment, and prices. Only a part came from Government spending for defense and Lend-Lease.

This is exactly the point where we differ with those who look for commodity price strength even though additional defense spending is comparatively small. This is not at all like 1940 and 1941. Then, we were coming out of a long depression when demand for durable good had been subnormal. The volume of consumer credit was small. Very few people had anticipated a war.

Now, we seem to be coming to the end of a business boom of several years' duration. Consumer credit, at $19.1 billion at the end of May, is at the highest level on record. During the past three years, consumer buying of durables has been stimulated several times by the warming up of the cold war. There isn't much room left (*Please turn to page* 441)



Another Look AT THE BUDGET

By J. S. WILLIAMS

The fiscal year-end Treasury statement, disclosing a Federal deficit $2.4 billion less than anticipated, warrants at least some subdued cheering. Cheering is in order because it's an unusual and pleasant development, and moderation is in order because it's not likely to be repeated. Quite apart from that, it wasn't planned that way—but this should not detract from the constructive nature of the event.

As to the other side, the budget deficit of $3.1 billion, even though considerably less than the $5.5 billion earlier expected—fully 40% less—is still a whopping big one considering that fiscal 1950 was a year of peace and high prosperity. Actually the Government spent $110 million a day throughout the year and went $8.55 million deeper in the hole every 24 hours. The final red ink entry was produced by the Government's spending $40.16 billion while taking in only $37 billion, resulting in the eighteenth budget deficit in the last twenty years.

The chief reason for the deficit's being smaller than expected does not lie in any sudden increase in tax revenues; the latter in fact were $718 million less than original estimates. True, tax revenues in recent months have been running higher than anticipated, reflecting revival of the business boom, but this will be mainly felt in fiscal 1951. The real reason lies on the spending side of the budget. The amounts expended for defense, Marshall Plan and foreign arms aid were all less than planned; as a direct result, total budget expenditures came to only $40.1 billion compared with the January estimate of $43.3 billion.

The nature of the cuts explains why fiscal 1951 may shape up entirely differently. Not only will the 1950 lag in these outlays have to be compensated for in 1951, but the critical international situation will likely cause expenditures far beyond those already foreseen. It is a prospect that pretty much squashes any hope of a balanced budget in the foreseeable future even if tax revenues should run appreciably higher as they likely will.

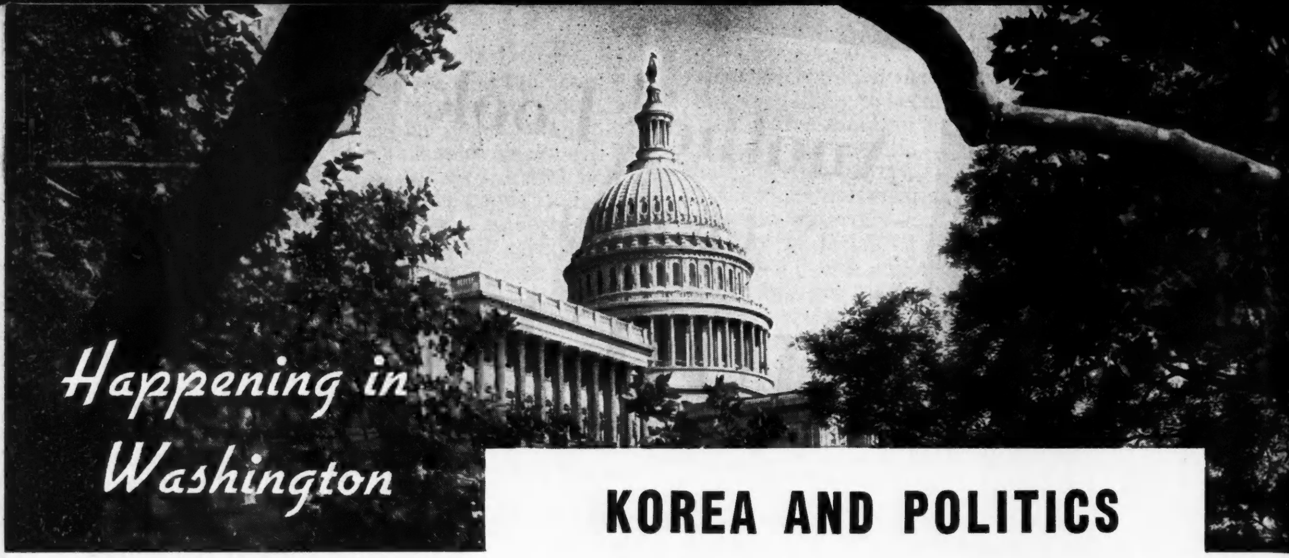
Earlier official estimates looked for a deficit of $5.1 billion in fiscal 1951 but many now regard this as too optimistic. Only the other day, Dr. Edwin Nourse, former chairman of the President's Council of Economic Advisers, forecast one of $7.3 billion while revised estimates of the Budget Bureau anticipate one of $6.2 billion. The Korean war now casts much doubt on whether even these higher estimates will prove realistic. The fighting is already adding to costs and if it continues long, the military segment of the budget will be headed distinctly up.

Accelerated Spending Ahead

Doubtless also, there will be more spending to strengthen our defenses, and those of our allies, throughout the world. In view of the latest turn in the political situation, it will take a courageous man —and an unwise one—to stand up in Congress and vote to curtail the purse strings when spending comes under the head of preventing a shooting war from spreading. And with elections in the offing, there will be a natural tendency to step up work on some of the "pork barrel" projects that have been lagging.

Thus, if the budget's future depended only on efforts to cut spending, the prospect of a balanced budget or a relatively moderate deficit would be dim. The picture is brightened a bit by recent business and tax trends as already mentioned; but to what extent this factor can offset the new spending needs is at this time a moot question.

The fact remains that a localized war in Korea, possibly followed by other "incidents," will ensure heavy defense spending for a long time. While in turn this will put a more or less permanent prop under business, we may (*Please turn to page* 444)



KOREA AND POLITICS

By E. K. T.

REMINISCENT of political attempts to fix responsibility for Pearl Harbor was the partisan debate that raged in Washington as the communist forces mowed their way past the midway stripe of Korea. A decade ago the issue was whether the republicans had made the South Pacific vulnerable by ganging up against fortification of Guam. Never satisfactorily answered, the issue never was abandoned. This time, the fighting ground is who denied economic aid to South Korea. Involved was a 60 million dollar appropriation. It was rejected Jan. 19 by a single vote in the house, revived and passed after a month's delay. Democratic score card shows republicans overwhelmingly opposed the aid.

WASHINGTON SEES:

Outbreak of war in Korea brought Washington sharply up against the fact that the United States is without a comprehensive plan to put the country on a wartime basis despite almost five years of National Security Resources Board existence.

W. Stuart Symington, chairman of NSRB, was one of the first top agency men called to the White House to confer with President Truman, after the immediate military phases were out of the way. The White House knew rather well what to expect; the security resources board had been left without a chairman for many months, operating as a stepchild of the Executive Department with Dr. John R. Steelman, Assistant President, giving it a fractional part of his time and attention.

Symington admitted such controls over industrial and civilian activity as might speedily be brought into play are the slightly polished programs that were used in World War 2. They touch prices, wages, jobs, and commodity rationing. But there are dangerous voids in the plan, it was admitted. Experience with the atomic bomb came at the very end of the war; naturally there was no provision in the resources control chart for channeling material with the rapidity an atomic war would require. And another area immediately concerned with the A-Bomb—civil defense—has not been brought up to date, in fact is in a very nebulous state.

There was one bright spot in the picture: approximately 1,000 industrial plants have received "phantom orders" from NSRB, in the aggregate of 1 billion dollars. They are tooled and ready to go. To that extent, the costly delay at the outset of World War 2 would not be repeated.

POLITICAL beneficiary of the crisis was President Truman. Except for a few extremely isolationist newspapers which still accuse President Roosevelt of causing Pearl Harbor to be bombed, press and radio saluted the President's positive action with high praise. Man-in-the-street interviews by the press found the general populace in accord with the White House action, while naturally hopeful of early termination. In congress, the only critical comment heard came from an odd combination, Rep. Vito Marcantonio who invariably follows the communist line, and Senator Robert A. Taft. Both say Mr. Truman illegally by-passed congress; Taft's criticism was technical, Marcantonio's was basic.

VALUABLE experience was gained as the Korean situation turned up a proving ground to test the sincerity of hemispheric and global promises among the democracies. Members of the United Nations Organization were quick to make their pledges good with offers of aid, military and otherwise. And the Good Neighbor policy paid off. The 21 delegates to the Organization of American States met promptly and resolved their "firmest support" to the United States action. Interesting was the fact that Argentina was in the forefront, and that Guatemala, battling an internal communist problem, came at once to the side of the democracies, hinting early membership in the Rio defense pact.

TENSE hours tolled off during the two days of inaction following the President's appeal to the United Nations. The Kremlin became bolder and more insulting, seemingly taking the non-action to mean acquiescence. But the fact is that a "cease fire" order having gone out from UN, time had to be permitted for compliance. That fact was appreciated by the diplomatic and military high command.

As We Go To Press

If official Washington's reaction to the invasion of southern Korea is an example of what might be expected in the event of a full-fledged war more directly affecting the United States, much remains to be done to prepare not only the public but also the responsible authorities for emergency. There was conflict on the highest levels as to what this country's policy toward Korea actually was, where it stood, and what comes next. Diplomatic and military agencies appeared to have more public relations officers alerted than they had state and war experts.

The intelligence offices "knew right along" that the north would move against the south, they said; what they admitted they didn't know, was when, in what manner, with what show of strength, and with what promise of success the incursion would take place. There was wishful thinking that Moscow had been as surprised as was Washington—an obvious attempt to minimize the happening. That line didn't hold long. The State and Defense Departments looked to the White House to "take us off the hook," and President Truman, cavorting again in his Missouri home town, hurried back to find out what it was all about.

Capitol Hill proved itself unready, or unwilling, to meet an emergency and cope with it. That, in itself, came as something of a shocker, for a large percentage of congress' membership was in office when Pearl Harbor fell and a few even had the additional seasoning of service at the outbreak of World War I. Instead of closing ranks to share positive thinking, the congressmen fell into warring camps: on the one side there were charges that the Administration and the Central Intellignece Agency had fallen down on the job—or worse; on the other, that John Foster Dulles, who was to bring bi-partisan effort into international policy had missed the boat on his first assignment, which was Korea.

What might have happened had the military event been a frontal attack by Russia on a United States possession, was further illustrated by the comments of lawmakers who rushed into print. They ranged all the way from proposals that atomic bombs be dropped on the invaders, to expositions on the safety of isolationism; from proposals that the navy (what's left of it) get up a head of steam and rush into the fray, to the advice that military aid be stopped, lest an "incident" be created. General impression was that the Kremlin again was testing American willingness to declare a new Alamo.

Despite the fact that the republican caucus of the senate unanimously voted a declaration of policy that there is no need for the United States to fear involvement in armed conflict, and democrats informally seconded that expression, there was obvious "war scare" in the Capital. That was to be reflected in a changed attitude on the part of some holdouts on continuance of the selective service (draft) act, high military appropriations, and the 70-group air force—the latter a powerful thing on paper, but one requiring years for translation to armed strength.

Politics took no holiday. The Administration leaders had geared the huge tax bill to time its arrival on the house floor just in advance of the July 4 holiday. Teacher held out to pupil the promise of a nice, long holiday if all the class work were completed in time. There were immediate signs that the plan was working; the Congressmen obviously were more anxious to get back home than to watch hour-by-hour developments and be ready to meet the necessities of the situation.

The political war was going badly against the Administration. Defeat of liberal Senator Frank P. Graham in North Carolina, was an unlooked-for blow. Liberal Senator Claude Pepper had been turned down by Florida, and the proof seemed positive that the south was solidifying against the Truman Fair Deal. Democratic National

Committee headquarters was counting out Senator Elmer Thomas, party wheel-horse reportedly losing ground to Rep. A. S. "Mike" Monroney. The democrats saw one bright spot: Rep. Helen Gahagan Douglass was believed to be leading Rep. Richard M. Nixon in the California senatorial battle.

In the swiftly moving stream of politics, the name "Roosevelt" was being buffeted about. On both coasts, sons of the late President could see the eclipse forming. Withdrawal of Gov. Thomas E. Dewey from the gubernatorial lists in New York was taken to mean that the magic name of Roosevelt no longer was the strong weapon to put into the fight for governor of the Empire State, and Franklin D., Jr., was being filed away for such future uses as might arise. On the West Coast, James Roosevelt was seen in a hopeless fight to oust Gov. Earl Warren from the governor's chair.

But republicans weren't too happy. Departure of Pepper and Graham adds nothing to their numerical strength, and it seemed certain that whether Thomas or Monroney triumphed in Oklahoma, a democrat would be sent to the upper house. The GOP must hold its present strength and pick up seven senate seats this year to control that body. Two years hence, the republicans will put up 20 of their seats and the democrats only 11; a close Presidential election could very well mean democratic control of the upper chamber even if a republican goes into the White House!

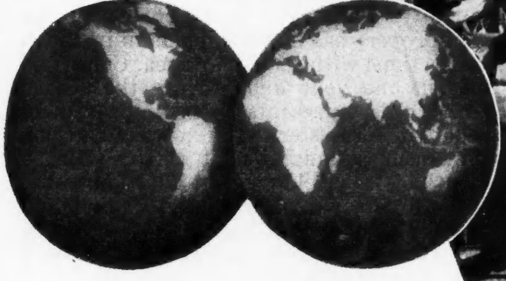
And business-as-usual was the watchword in the agencies and departments. The final week of June saw frenzied effort by some of the purchasing agents of the bureaus to get rid of funds which, by law, would otherwise revert to the Treasury July 1 —the beginning of the new fiscal year. Departments which had been crying to congressional committees that they could not operate with reduced budgets were knocking at the doors of companies selling business machines and the like, stocking up supplies in already crowded store-rooms, asking immediate delivery of materials for the purchase of which funds remained. Nothing unusual. Merely an annual performance which, somehow, never seems to attract the suspicion of Capitol Hill "watch-dogs of the Treasury."

Housing and Home Finance Agency believes it has stopped the gray market in building materials. In any event it is publicizing the warning that it's the builders' own fault if they pay panic prices for items going into home construction and other types. There was some sound basis for an ascending scale of costs nine months ago, says HHFA, but the slack has been taken in, there's no dearth today. The government contends virtually all reported materials shortages are artificially created.

Having closed down the New York World-Telegram and Sun by a strike, American Newspaper Guild in convention here decided what this country needs is more jobs for reporters and has decided to provide those jobs by launching new papers. Slight drawback is where to get the money to make the beginning, sustain the publications during their formative years. With high costs of newsprint and labor, hundreds of dailies with first-class business talent directing them are skidding along the profit-loss line today.

The guild, a CIO affiliate, thinks other unions, even the American Federation of Labor, might be willing to kick in money to start papers competitive with those now being published. AFL's answer, when it comes, will be discouraging. President William Green of AFL has recommended creation of AFL-supported newspapers of general circulation in each of his annual reports for the past decade. He hasn't been able to sell the idea to his membership.

Reason given by the guildsmen for wanting to control a chain of daily papers is that freedom of the press would best be protected in their hands, and that improved pay and working conditions would be assured. The labor group now circulated "The Guild Reporter" to its membership, and through that medium keeps the editorial workers reminded of their sad lot under the "greedy publishers." While the guild was in convention here, late in June, it received a highly critical report on working conditions from the staff of its own newspaper, accompanied by demands for relief in the form of higher salaries, more of the things comparable workers on privately-owned newspapers receive.



Interpreting . . . The Significance of New Foreign Developments

By V. L. HOROTH

THE TRAGEDY OF THE THIRTY-EIGHTH PARALLEL

Should the North Korean communist-bandit forces be pursued beyond the thirty-eighth parallel? Such a course would almost certainly involve bringing Chinese or Russian troops into the conflict, and at the same time place the United States into a vulnerable position should the present localized war develop into a global one. Yet if we and our allies stop at the thirty-eighth parallel, nothing will be done to remedy South Korea's economic plight which, as a source of social and political unrest has invited and will continue to invite attack from the North.

The arbitrary division of Korea—originally conceived to speed up the disarming of the Japanese troops—was one of the greatest absurdities in the postwar settlement. Once in Korea, the Russians blocked all American attempts at the unification, believing that ultimately discontent and hardships would result in dropping the whole country into their lap.

On the map of the United States, Korea may be imagined as a strip of land, about 200 miles wide stretching roughly from Boston to Charleston, South Carolina, and divided by a line drawn in the latitude of Richmond, Virginia. Korea was once economically a fairly well balanced country, but after the division, North Korea (about the size of Virginia with 9 million people) got the best of natural resources, including gold, tungsten and coal. It also has most of the hydro-electric power plants, large forests which supplied raw materials for local and Japanese paper and rayon plants, an important chemical industry, concentrating on the production of fertilizers, and a woolen textile industry.

In contrast, South Korea has very few natural resources except a little tungsten and graphite, and some inferior coal. Manufacturing has been limited to cotton textiles and food processing. But South Korea (about as large as North Carolina) has most of the arable land including the "rice bowl." This land, however, must support some 21 million people or about eight times as much per square miles of arable land as in the United States, even though ineffective, antiquated cultivating methods result in yields far below those in the West.

The solution of the Korean problem is a tough one. A mere reoccupation of the country up to the Thirty-eighth parallel will not solve the problem of checking disastrous inflation, incompetent and often corrupt administration, and of providing jobs and food for the population which in *South Korea* is increasing at the annual rate of 400,000. The terrific pressure on the available resources can well be imagined. A successful military campaign must be followed by checking the inflation and by an administrative reform. Eventual unification and perhaps neutralization of the country, so that a flow of goods among Korea, Manchuria and Japan could be restored, seem also essential.

East-West European Trade Suffers from Cold War

The recent offer of the Russians to exchange a sizeable quantity of wheat for Western European machinery and equipment has created a rather delicate situation. Can the offer be taken up, in order to bolster East-West European trade, without aiding the Russian war potential? Although the restoration of trade between Eastern and Western Europe,

which are naturally complementary, was advocated at the time of the setting up of Marshall Aid, more recently the American ECA officials have been none too favorably inclined to overcome the present stalemate. They consider the Russian offer merely a bluff—designed to stir up anti-American feeling—that needs to be called. On the other hand, the Western Europeans, and Western German industrialists in particular, are not so sure. The Western Germans cannot forget that about one-fourth of their manufactured goods exports was sold in the East before the war. Last year Western Germany exported to Eastern Europe only $59 million worth of goods, though the OEEC target for 1952-53, when American aid comes to an end, is $530 million.

With mutual distrust between East and West growing, both sides are imposing export controls on goods that could increase war potentials. Hence, it is more and more difficult to find goods that can be exchanged. The Eastern Europeans, including the Russians, have mostly wheat, fodder grains, some meat (Poland) and even some machinery (Czechoslovakia and Hungary) to offer. Important items also are timber, eagerly taken up by the British, and recently pulp and paper.

But the Western Europeans would prefer nonferrous metals, heavy chemicals, manganese, petroleum, vegetable oils, and dairy products which the Easterners are either unwilling to sell, or are not producing in sufficient export quantities. Because of internal industrialization, the local demand for some of these products has expanded. At the same time those sections of agriculture and industry in Eastern Europe which supply goods of interest to Westerners have not received the proper stress in East Europe's economic planning.

The Western European countries offer for sale whale oil, fish, wool, rubber, cotton, tropical vegetable oils, and other commodities, all of which are eagerly bought by Russia and the satellites insofar as their resources permit. They would prefer to buy industrial and transportation equipment, turbines, mining machinery, special chemicals and petroleum products. But most of these products have been on the prescribed lists, which differ widely from one European country to another. Sweden and Switzerland, for example, sell the Russians and their satellites all kinds of metal working machinery, ball bearings, and other products on which a strict export control is imposed by the United States.

The U. N. Economic Commission for Europe of which the former Swedish Minister of Commerce, Gunnar Myrdal, is the head, is trying to break the stalemate by extending the range of exchangeable goods and by applying some of the principles that also govern the EPU.

British Labor Government Riding a Prosperity Wave

Predictions that the sterling area's gold and dollar holdings at the end of June would show the biggest quarterly jump since the end of the war were more than borne out by the figures released by the Chancellor of the Exchequer. The gain during the April-June quarter of $438 million brings the sterling area's gold and dollar pool to $2,421 million, or more than $1,000 million above the low point reached at the time of the devaluation. The reserves are thus well above the so-called "safety level" of $2,000 million considered necessary for the maintenance of the pound's free convertibility, which unquestionably has been brought a stage nearer.

The significance of these figures is that they indicate that the sterling area as a whole—but not Great Britain proper—has now a surplus in its international transactions with the dollar area. Compared to the situation one year ago, during the second quarter of 1949, this represents a vast improvement indeed. At that time, the sterling area was incurring on an annual basis a dollar deficit of some $2,500 million which had to be plugged, in addition to the Marshall Aid, by drawing on available gold and dollar reserves at an annual rate of about $1,000 million. At that rate the reserves would have been exhausted by the end of 1950.

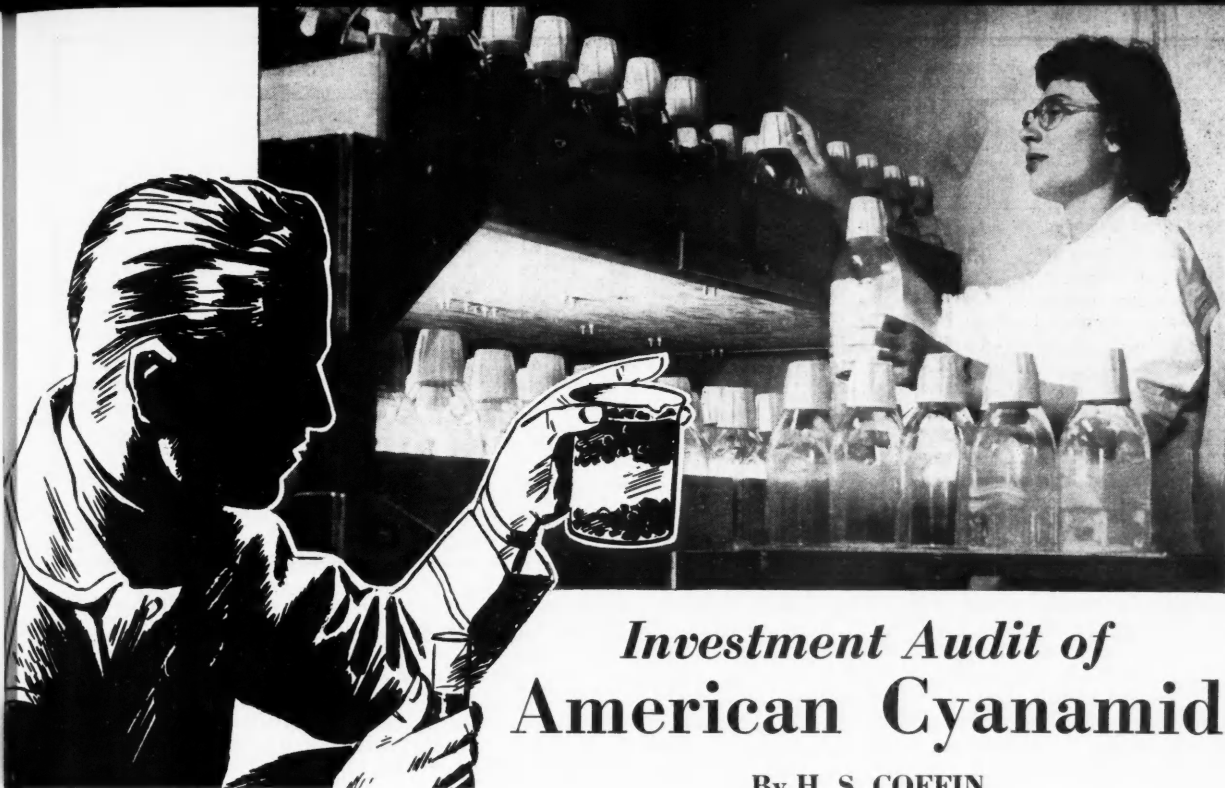
Factors Responsible for Reversal

The number one factor which brought about this vast change was the drastic economy measures adopted by the sterling area countries. These measures cut purchases in the dollar area by 25 to 30 per cent. Factor number two was the upswing in business in the United States, Canada, Western Europe and elsewhere. Between expanding shipments of such commodities as wool, rubber, jute, copper, zinc, and cocoa, and higher prices, the dollar earnings of the sterling area countries other than Great Britain have been running in recent months at an annual rate of $200 to $250 million above the dollar earnings one year ago. By boosting up raw material prices and delaying the return of competition in international markets, the Korean affair should further help Britain's dollar position.

The dollar earning capacity of Great Britain proper has also improved. On the basis of April and May figures, the British were exporting to this country about $100 million worth of goods more annually than during the six months before the pound revaluation. Even more spectacular is the rise of British exports to Canada. Record quantities of cars, chemicals, steel products, machinery, and glass were shipped to the Dominion in May.

The easing of the balance of payments problems has been accompanied by a great improvement in the internal economic situation. In fact, business in Great Britain is booming. Manufacturing activity is nearly 60 per cent above prewar; employment and productivity are establishing new records. Crop prospects are excellent. Food rationing has been relaxed, allocations of steel and building materials liberalized, gas rationing eliminated altogether, and so down the line. In short, "fresh air" was let in, and Britain's economy treated to a "dash of freedom". All these developments have strengthened the Labor Government's position. Contrary to predictions made early this year, the chances of Mr. Atlee's Government staying in power for the remainder of 1950 look pretty good.

This does not mean, however, that Great Britain is out of the woods. The basic weaknesses are still there. The country's economy continues to be rigid. Except for some lines, modernization of industries is making only slow headway. The problem of the blocked sterling balances remains to be solved, and the full impact of German and Japanese competition has not as yet been felt. There is still too much purchasing power in respect to available goods for all controls to be removed.



Investment Audit of American Cyanamid

By H. S. COFFIN

As the fourth largest unit in the chemical industry, American Cyanamid Company has forged ahead in striking manner during postwar, especially in the most recent phase of the business boom. In reflection of sharply advanced earnings and increased dividend liberality, the company's shares have doubled in price since early 1949. In consequence, it seems timely to examine the underlying factors accountable for the gains, American Cyanamid's current status in a highly competitive industry, and its future potentials.

For many years past, American Cyanamid has progressively expanded its facilities to keep abreast of the growing demand for many kinds of chemicals, and through intensive research has developed numerous new products to broaden its markets. Broad diversification has been achieved by production of industrial chemicals in essential need by manufacturers in all important fields, with increasing emphasis on pharmaceutical and biological products. Thus in marked degree the company has been favorably situated, in common with other major chemical concerns, to benefit from the record prosperity throughout the economy. In at least one respect however—the development of startlingly effective antibiotic drugs – American Cyanamid's growth potentials have been particularly enhanced, as already indicated by the recent uptrend in sales and earnings.

Largely accounting for a rise in volume to an all-time peak of $237.7 million in 1949, from $88.1 million ten years earlier, has been stress laid on research and product development. In the period mentioned, American Cyanamid spent more than $69 million in its efforts to discover new chemical products, new processes and new uses, and in the last three years its annual outlays for the purpose have exceeded $10 million. Activity on such a scale has enabled the laboratory divisions to pour forth a flood of new or improved items for the company's 37 plants to produce, in keeping step with the war-stimulated forward march in chemical science. Essential materials for the development of synthetic rubber, new plasticizers, synthetic resins, molding compounds for the growing plastics industry, new catalysts for the petroleum group, are only a few of numerous products that supplemented a stable output of heavy chemicals, acids, dyes, agricultural chemicals to service industry on every front.

It is interesting to note, however, that in last year's annual report the management listed pharmaceutical and biological products at the top of its eleven divisions, and stated that approximately 75% of net sales in 1949 were represented by these items and those of three other classifications. Furthermore, in the past several years, the profit margins on the medical products have been wider than the average on all sales, in consequence of which the net profit on these specialties has constituted an important element in over-all net income of late.

Aureomycin—The Wonder Drug

The most important of the company's recent new discoveries has been the development of Aureomycin, introduced in December 1948. This "wonder" drug has proved spectacularly effective in combatting germs formerly invunerable to all killers. Where penicillin failed to cure such diseases as virus pneumonia, undulant fever, flu, Rocky Mountain fever and many other maladies, Aureomycin has proved highly effective, so that heavy demand has been created on a world-wide scale. The new drug stems from a mash that also contains an ingredient that increases the growth of hogs and other animals at

Long Term Operating and Earnings Record

	Net Sales	Operating Income	Operating Margin %	Taxes	Net* Income	Net Profit Margin %	Net Per* Share	Div. Per Share	Percent Earned on Invested Capital %	Price Range 1940-1950
	Millions			Millions						
1950 (First Quarter)	$ 72.7	$ 14.0	19.2%	$ 5.4	$ 8.7	12.0%	$2.78	$2.375(a)	6.9%	76⅜-49
1949	237.7	25.0	10.5	9.6	16.1	6.7	5.39	2.00	12.8	51⅛-35¼
1948	231.9	15.9	6.8	5.9	11.8	5.0	3.84	1.50	10.2	43 -33¼
1947	214.5	13.5	6.3	5.6	9.1	4.2	2.96	1.00	8.3	54½-38⅝
1946	178.9	12.2	6.8	4.9	8.6	4.8	2.90	1.50	10.3	63¾-41¼
1945	159.0	10.4	6.5	5.0	5.9	3.7	2.02	1.25	7.6	55⅜-47⅞
1944	165.4	14.6	8.8	9.9	6.4	3.8	2.19	.75	8.5	(b)41⅜-34¾
1943	175.9	23.2	13.1	17.0	7.4	4.2	2.25	.60	10.3	47½-36¾
1942	134.0	18.9	14.1	13.3	6.1	4.5	1.78	.60	9.2	41⅞-28⅝
1941	127.1	18.4	14.4	11.4	7.7	6.0	2.42	.60	12.3	42⅜-31
1940	88.1	10.5	11.9	3.1	7.6	8.6	2.44	.60	13.0	39⅞-26
10 Year Average 1940-49	$ 171.2	$ 16.2	9.9%	$ 8.5	$ 8.6	5.1%	$2.80	$1.04	10.2%	76⅜-26

(a) Through July 1. *Excluding equity in undistributed net earnings of associated companies.

(b) Price of class "B" Stock prior to 1944, exchanged share for share with present common.

a very abnormal rate. As yet the time has been too short to determine just how many diseases Aureomycin will cure, but the list is growing daily as the result of medical experience.

In its production of Aureomycin, American Cyanamid has been fortunate in being able to utilize the elaborate equipment and huge vats it formerly used to produce penicillin in very substantial quantities, as well as to draw on its extensive experience with many kinds of antibiotics or molds.

Supply-Demand Prospects

As has always been the case with newly introduced drugs of this kind, limited production at the start makes possible abnormally wide profit margins, as high prices are no deterrent to demand, at least until some equally efficient new product appears on the market, or the supply increases to a point well exceeding demand. When penicillin, for example, was first introduced it sold at a wholesale price of $20 a dose but is now obtainable for little more than four cents, all due to vastly increased production.

Where American Cyanamid may have a present advantage with its Aureomycin is through patents that will protect the company until 1966. This creates a marked contrast with penicillin where the field was wide open to numerous chemical concerns. While demand for penicillin still remains strong and output continues at a high level, negligible profits are now resulting and American Cyanamid now fills its orders by purchase from outside sources. Despite an apparently comfortable competitive position, the company announced two price reductions on Aureomycin in the current year, one of 20% on all forms effective February 1 and another of 25% on capsules and 10% on other forms as of May 1. On the basis of a troy ounce, however, the price is still about three times that of gold, although the amount required for daily dosages may involve only a few dollars.

While no definite figures are available, some trade estimates place American Cyanamid's current output of Aureomycin at several tons per month and figure 1949 sales of the item at around $40 million. Regardless of these glamorous estimates, however, and the company's strong patent position, sight must not be lost of potentially strong competition from other drugs produced by somewhat different methods but equally effective in attacking numerous virus diseases.

The latest of these newcomers seems to be Terramycin, a product of Charles Pfizer & Company, that claims to equal the merits of Aureomycin as a germ killer, with an added advantage of having less after-effects. Spokesmen for American Cyanamid, though, hint of having fully overcome this adverse factor in their wonder drug. Then there are several other antibiotics, such as Chloromycetin and Streptomycin that have proved very effective against many types of viruses, and others will likely appear. Without questioning the super-qualities of Aureomycin, there seems little doubt that its producer may experience intensified competition, though with broadening world markets there will be ample room for substantial sales.

The main thing to consider over the longer term is that Cyanamid's business does not have to rely on any single spectacular product, or even several of these, although at times they may contribute notably to annual earnings. Aggressive sales policies have so strongly entrenched the company with the pharmaceutical manufacturers, retail and wholesale drug distributors, the agricultural and food groups, the paint and printing industry, textile, paper, rubber, plastics and rubber producers, that its prospects for continued growth are well above average. As a major producer of acrylonitrile, an essential in duPont's new Orlon fibres, American Cyanamid may find an interesting new market.

Foreign Markets

Foreign markets have been increasingly exploited by the company, including Canada, South Africa, Mexico, India and Latin-America. In 1949, foreign sales accounted for about 17% of total volume. As for imports, two important company plants in Canada produce substantial quantities of calcium cyanide, ammonium nitrate fertilizers and related products, the bulk of which goes to the United States. Other imports are casein and tanning extracts and a number of raw materials such as wood pulp from Canada, ilmenite from India and bauxite from a company owned operation in British New Guinea.

American Cyanamid's numerous subsidiaries operate in modern facilities strategically located to assure the most satisfactory results. Each group has its own selling organization, trained to handle its various highly specialized items, and several of the more important divisions have their own research laboratories. At the present time, the company employs about 1400 people in its laboratories, the 1949 cost of these activities representing more than 4% of consolidated net sales last year. Such emphasis on research reflects farsighted judgment by the management, because continuous product obsolescence in the chemical industry is always a major problem. In all divisions, competition is severe and to keep abreast of the times, a great deal hinges on the quality and amount of new discoveries that emerge from the laboratories. In this respect the company has gone to commendable lengths to fortify its competitive position.

In the five year period 1945-49, American Cyanamid has spent $102.7 million on capital improvements, including construction or acquisition of new facilities and modernization of equipment. Despite these substantial additions to plant investment account, however, it has been amortized or depreciated to a net figure of $93.9 million on the company books as of December 31, 1949, against total original costs of $176 million. This obviously indicates very conservative accounting policies by the management.

Comparative Balance Sheets Items

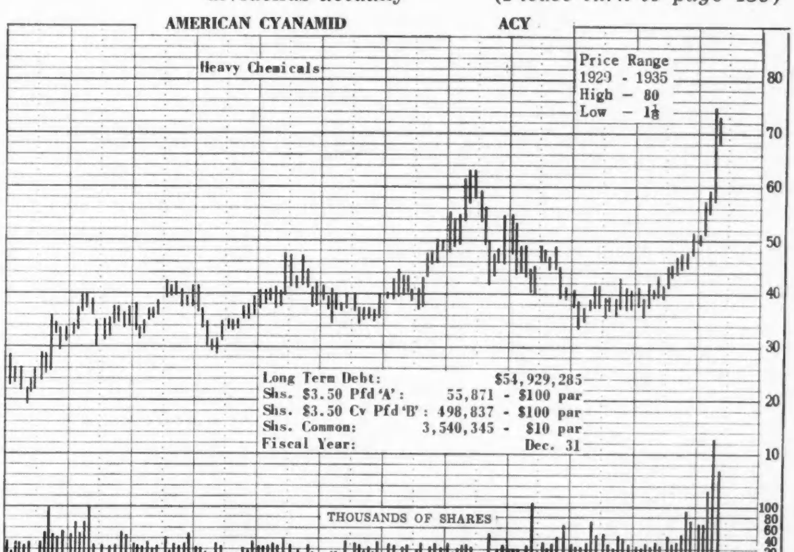
ASSETS	December 31 1940	1949 (000 omitted)	Change
Cash	$ 15,434	$ 43,542	+$ 28,108
Marketable Securities	799	22	— 777
Receivables, Net	8,348	22,854	+ 14,506
Inventories	21,361	46,010	+ 24,649
TOTAL CURRENT ASSETS	45,942	112,428	+ 66,486
Plant and Equipment	72,539	176,844	+ 104,305
Less Depreciation	45,237	82,940	+ 37,703
Net Property	27,302	93,904	+ 66,602
Investments	7,425	11,619	+ 4,194
Other Assets	5,748	6,163	+ 415
TOTAL ASSETS	$ 86,417	$ 224,114	+$ 137,697
LIABILITIES			
Accounts Payable	$ 9,018	$ 21,598	+$ 12,580
Accruals	586	4,463	+ 3,877
Accrued Taxes	3,150	13,217	+ 10,067
TOTAL CURRENT LIABILITIES	12,754	39,278	+ 26,524
Reserves	3,594	1,285	+ 2,309
Other Liabilities	....	1,558	+ 1,558
Long Term Debt	11,648	57,561	+ 45,913
Preferred Stock	8,549	36,823	+ 28,274
Common Stock	26,184	27,986	+ 1,802
Surplus	23,688	59,623	+ 35,935
TOTAL LIABILITIES	$ 86,417	$ 224,114	+$ 137,697
WORKING CAPITAL	$ 33,188	$ 73,150	+$ 39,962
CURRENT RATIO	3.6	2.8	— .8

New Capital for Expansion

Just how optimistically the company views the future is shown by a recent sale of about $50 million Series B 3½% preferred stock to provide additional working capital or to expand facilities. As the company's financial position was very strong prior to this financing, it can be assumed that most of the proceeds will be used for expansion. As a first step it has been announced that a $3 million plant will be constructed in East Chicago to produce cracking catalysts for the petroleum industry, specialties in which American Cyanamid has long held a leading position.

At the beginning of the current year, the company's balance sheet disclosed net current assets of $112.4 million, including $43.5 million cash, compared with current liabilities of $39.2 million. Inventories of $46 million represented about ten weeks' volume at the 1949 annual rate of $237 million, indicating a very satisfactory turnover rate. Long term debt of $57.5 million mainly carries an interest rate of 2¾% and is payable in easy installments through 1965. As of December 31, 1949, 368,231 shares of Series A 3½% preferred stock was outstanding, but through conversions since then into common stock on a basis of one share of preferred for 2.353 shares of common, the amount outstanding has been substantially reduced. A corresponding increase in the number of shares of common outstanding, amounting to nearly 700,000 shares by May 16, would lift the number of equity shares to around 3.5 million and by now may have swelled further. Allowing for the recent new issue of 498,849 shares of Series B 3½% preferred, convertible into common at 72, it seems probable that about 700,000 shares of preferred must be outstanding, although the number may be somewhat less.

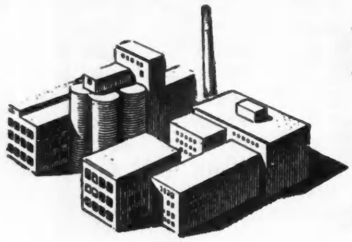
In examining the consolidated balance sheet there is one item relating to investments in associated companies that should not be overlooked. These holdings of $11.1 million represent a 49% or 50% interest in concerns whose earnings are not included in American Cyanamid's consolidated picture, although dividends actually (*Please turn to page* 439)



1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	
2.07	2.44	2.42	2.34	2.27	2.20	2.02	2.90	2.96	3.84	5.28		EARN.
* .60	* .60	* .60	* .60	* .60	1.35	1.25	1.50	1.00	1.50	2.00		DIV.
30.4	33.1	39.0	49.3	54.2	54.9	71.9	55.2	67.6	68.6	73.1		Wkg Cap $ Mil

* Plus Stock Dividend

Five Companies *Paying Progressively* Higher Dividends



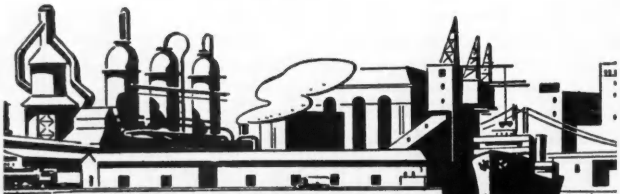
By Our Staff

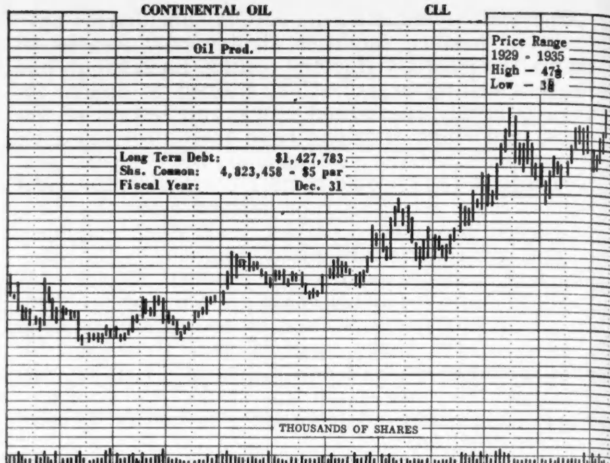
With dividend experience a prime factor in determining satisfactory investments over the long term, the record of a few selected concerns in postwar assumes unusual significance. While past performance is no infallible guide to future expectancies, no better evidence of good management is afforded than instances where over a five year period shareholders have received progressively increased dividend income.

In such cases, confidence is engendered over future operations, and appreciation potentials are enhanced by the clear indication that company directors recognize their responsibility to their stockholders by liberal dividend policies. In the long run, of course, stock prices will largely hinge on yield, and while no concern can count on improving this factor in every year, the fact that progressively higher dividends have been distributed over a period of years at least bespeaks dynamic progress.

Considering the numerous vicissitudes that brought ups and downs in the economy in postwar, attended by labor troubles, rising costs, materials shortages, varying temporary trends in sales and earnings, such a dividend record is particularly impressive. Our present selections represent concerns, all well situated from the standpoint of future potentials, which have raised their annual disbursements every year during the last five years, and sometimes beyond.

Our readers will note that our selections are from five different industries, and as might be expected represent outstanding leaders in each group. It is hardly necessary to point out that the businesses are all essential, well managed and soundly financed. On following pages we present statistical information and brief comments as to the record and outlook of these firms, the market action of their shares and current yield. In view of present unsettled market conditions, we do not advise immediate purchase of these equities, but suggest timing in accord with the advice of our Mr. A. T. Miller appearing regularly in our Magazine.





1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
1.35	.92	3.29	3.19	3.01	2.57	3.23	4.05	6.61	11.24	7.48
1.00	1.00	1.00	1.00	1.00	1.20	1.60	1.70	2.50	3.50	4.00
38.8	30.00	17.6	27.9	32.7	30.1	21.3	30.9	39.1	59.3	57.1

CONTINENTAL OIL COMPANY

BUSINESS: An important producer and refiner of petroleum, with substantial crude oil resources in many areas of the country. More than 4 million acres of oil lands are controlled in the United States.

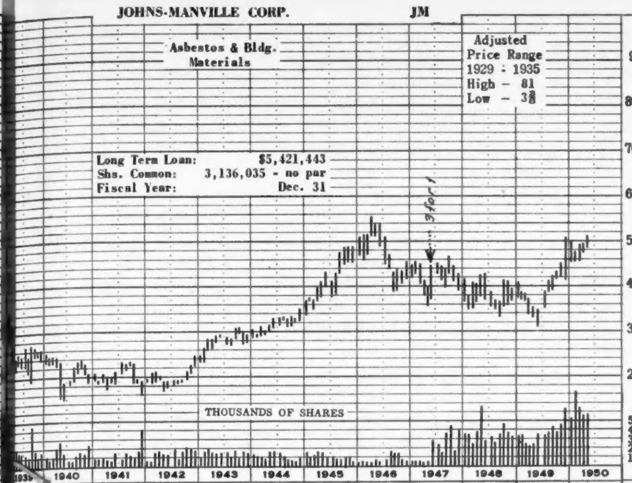
OUTLOOK: Company is well situated in many respects to continue its substantial long term growth. In the past two years, its prospective oil acreage has more than doubled and were it not for state conservation measures and the present general over-supply of crude, the company's daily production could rise sharply. Through postwar outlays of $27.3 million for refinery modernization, the company's capacity for numerous petroleum products has greatly expanded, but even so it has large quantities of surplus crude oil to sell to other concerns. Exploitation of natural gas resources has enabled Continental Oil to sell an increasing volume to pipe line operators with bright prospects for disposing of much larger quantities. To meet the steadily expanding demand for motor and heating fuels and lubricants, the company's extensive chain of distributors, mainly west of the Mississippi River, should continue to capture a fair share of available markets. Over the longer term, substantial benefits should accrue from a largely controlled subsidiary now becoming increasingly active in the Canadian Far West. In common with the majority of leading oil companies, Continental Oil's earnings last year receded substantially, in fact to $7.48 per share from $11.24 in booming 1948, but still remained well above previous years. In the first quarter of 1950 the downtrend extended, with net of $1.69 per share off 24.9% from the related 1949 period, but increased allowables and firmer prices should now reverse the trend, since consumer demand is proving heavy. Finances are strong, enhanced by conservative accounting policies.

DIVIDENDS: Dividends have been paid without interruption since 1934, latterly rising in each year from $1 per share in 1943 to a peak of $4 in 1949. Strong finances suggest that 1950 payments should match those of last year. $2 per share was paid in the first six months.

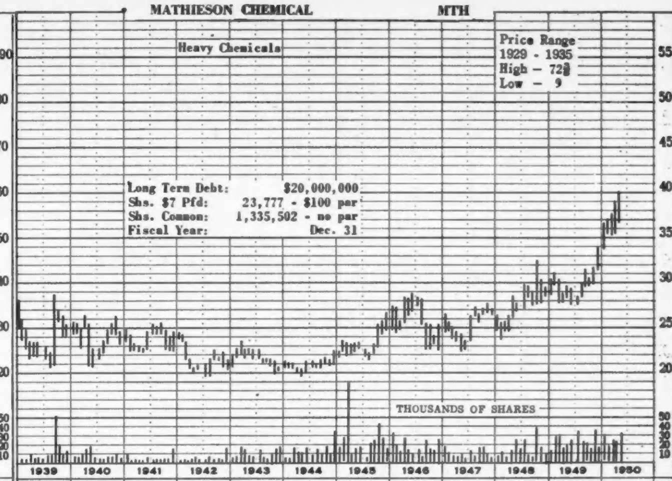
MARKET ACTION: Recent price—68 compares with a 1950 high of 70⅞ and a low of 55½. The indicated yield is 5.9%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 12,695	$ 17,740	+$ 5,045
Marketable Securities	110	20,242	+ 20,132
Receivables, Net	6,753	25,185	+ 18,432
Inventories	20,362	35,134	+ 14,772
Other Curent Assets	210	132	— 78
TOTAL CURRENT ASSETS	40,130	98,433	+ 58,303
Plant and Equiment	192,438	413,153	+ 220,715
Less Depreciation	119,356	260,493	+ 141,137
Net Property	73,082	152,660	+ 79,578
Investments	13,522	16,646	+ 3,124
Other Assets	2,290	3,555	+ 1,265
TOTAL ASSETS	$129,024	$271,294	+$142,270
LIABILITIES			
Accounts Payable	$ 7,641	$ 22,013	+$ 14,372
Accruals	938	6,148	+ 5,210
Accrued Taxes	1,541	13,171	+ 11,630
TOTAL CURRENT LIABILITIES	10,120	41,332	+ 31,212
Reserves	1,872	1,576	— 296
Other Liabilities	585	1,591	+ 1,006
Long Term Debt	21,906	.....	— 21,906
Capital Stock	23,693	24,397	+ 704
Surplus	70,848	202,398	+ 131,550
TOTAL LIABILITIES	$129,024	$271,294	+$142,270
WORKING CAPITAL	$ 30,010	$ 57,101	+$ 27,091
CURRENT RATIO	3.9	2.3	— 1.6



1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	
1.41	2.12	2.22	2.12	1.76	2.15	1.91	2.01	3.23	5.22	4.85		EARN.
.91⅔	.91⅔	.91⅔	1.00	.75	.91⅔	1.08⅓	1.16⅔	1.40	2.00	2.50		DIV.
19.3	18.6	22.0	32.3	28.6	25.3	25.8	24.6	26.9	35.1	27.7	Wkg Cap $ Mil	



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	1.12	1.72	1.90	1.26	1.34	1.40	1.19	2.25	3.34	5.61	5.14	
DIV.	1.50	1.50	1.75	1.12½	1.00	1.00	1.00	1.25	1.62½	1.75	2.12½	
Wkg Cap $ Mil	4.4	4.2	4.4	5.5	7.2	9.1	10.3	7.7	5.4	5.2	16.5	

JOHNS-MANSVILLE COMPANY

BUSINESS: This is the leading producer of items made from asbestos, magnesia, certain silica bearing earths and other materials largely used in the building industry, by automobile and electrical manufacturers.

OUTLOOK: The prospect of continued record construction activities for some time to come should maintain the business of this experienced and ably managed concern at a high level. Through expenditures of more than $60 million in postwar, many new plants have been constructed, equipment has been fully modernized and all operations from mines to factories well streamlined. These improvements, aided by substantial integration, have effected many cost savings and are enabling the company to maintain satisfactory margins under very competitive conditions. Johns-Mansville benefits from an unusually strong trade position, as well as a highly trained sales organization with branches in all important regional trade centers. Product diversification should enable the company to get a full share of the market in virtually every industry, as offerings include more than 400 items. Now that the postwar improvement program has been virtually completed, it should be possible for the directors to distribute a more liberal share of net earnings, especially since working capital of $27.7 million on December 31, 1949, appears ample for all current needs. Such policies at least should tend to offset any moderate recessive trends in earnings that may eventually appear. In the first quarter of 1950, volume of $39.5 million compared with $38 million a year earlier, despite reduced prices, and net earnings rose to $1.29 from 97 cents a share.

DIVIDENDS: Payments have been regular since 1935. Adjusted for a 3-1 stock split in 1947, dividends per share have progressively risen from 75 cents in 1943 to $2.50 in 1949. 60 cents a share was paid June 9 compared with 50 cents in March, and a year-end extra may be expected.

MARKET ACTION: Recent price—48 compares with a 1950 range of high—51½, low 44½. Based on 1949 dividends, the current yield is better than 5%.

COMPARATIVE BALANCE SHEET ITEMS

December 31	1940	1949	Change
		(000 omitted)	
ASSETS			
Cash	$ 8,888	$ 10,196	+$ 1,308
Receivables, Net	7,898	16,494	+ 8,596
Inventories	9,154	18,512	+ 9,358
TOTAL CURRENT ASSETS	25,940	45,202	+ 19,262
Plant and Equipment	55,732	118,396	+ 62,664
Less Depreciation	29,182	50,673	+ 21,491
Net Property	26,550	67,723	+ 41,173
Investments	3,543	1,750	— 1,793
Other Assets	2,844	19,206	+ 16,362
TOTAL ASSETS	$ 58,877	$133,881	+$ 75,004
LIABILITIES			
Accounts Payable	$ 1,883	$ 9,134	+$ 7,251
Accruals	1,186	.....	— 1,186
Accrued Taxes	4,174	8,320	+ 4,146
TOTAL CURRENT LIABILITIES	7,243	17,454	+ 10,211
Reserves	1,255	9,091	+ 7,836
Long Term Debt	.....	5,421	+ 5,421
Preferred Stock	8,131	7,037	— 1,094
Common Stock	17,000	48,549	+ 31,549
Surplus	25,248	46,329	+ 21,081
TOTAL CURRENT LIABILITIES	$ 58,877	$133,881	+$ 75,004
WORKING CAPITAL	$ 18,697	$ 27,748	+$ 9,051
CURRENT RATIO	3.5	2.6	— .9

MATHIESON CHEMICAL CORPORATION

BUSINESS: This is one of the largest producers of industrial chemicals derived from alkalis, such as caustic soda, soda ash and chlorine, besides many other chemicals. Its products are in demand by a long list of industries.

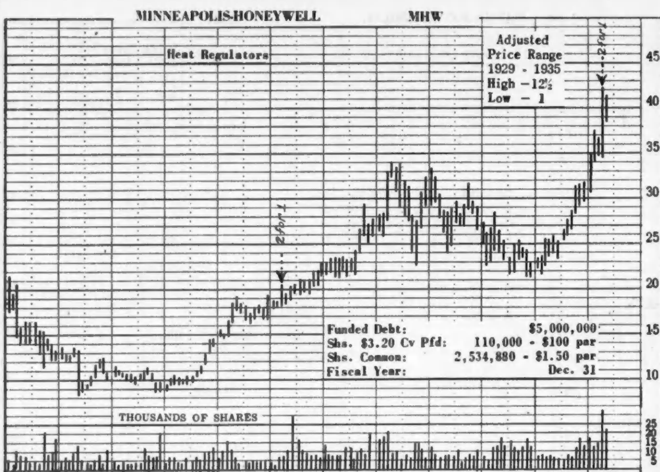
OUTLOOK: Operations for the most part are on a contract basis with customers, with orders usually covering needs for a full year. This advantage assures smoothness in filling schedules and tends to improve cost control in a period like the present when business is unusually active. Sales should continue at a high level for some time, as the company's products are essential to such industries as paper, meat packing, petroleum, textile, rubber, soap and chemicals, all of which groups have an encouraging outlook. The management of Mathieson Chemical has promoted the growth of the company with vigor, as shown by entry last year into the agricultural chemical field through acquisition of an established business. Additionally, plans have been recently announced to establish a new $25 million subsidiary jointly with Tennessee Gas Transmission Company to produce chemicals from the hydrocarbons of natural gas in transit. Investments in new facilities have paid off well for Mathieson Chemical, to judge from ten year's experience; in this period, volume has expanded more than fourfold, with net earnings rising equally fast, following an increase in plant account to $97.3 million from $24.4 million. Net earnings of $5.14 per share in 1949 were at an all-time peak and would have shown as $6 a share, if full year earnings of two companies acquired last spring were included. Net of $1.62 per share was reported for the first quarter of 1950.

DIVIDENDS: Payments have been made without interruption since 1926, and in the last five years have risen progressively from $1 per share in 1945 to $2.125 in 1949. Quarterly payments in the first half of 1950 were 62.5 cents a share. On July 25, stockholders will act on a proposal to split the shares two for one.

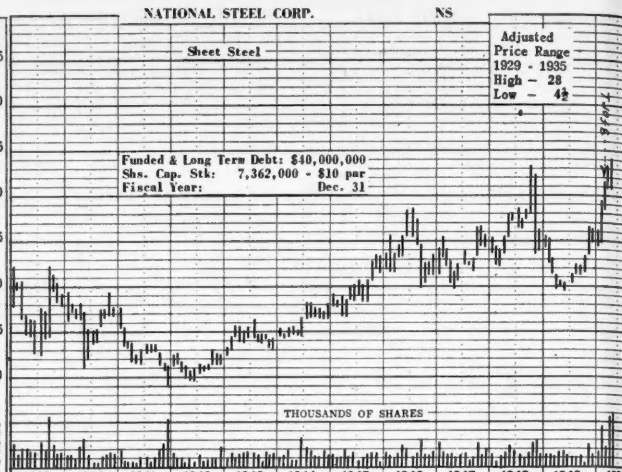
MARKET ACTION: Recent price—52 compares with a 1950 high of 62½, low—47½. The indicated current yield is 4.8%.

COMPARATIVE BALANCE SHEET ITEMS

December 31	1940	1949	Change
		(000 omitted)	
ASSETS			
Cash	$ 1,876	$ 7,291	+$ 5,415
Marketable Securities	.....	2,000	+ 2,000
Receivables, Net	1,338	5,615	+ 4,277
Inventories	2,127	9,526	+ 7,399
TOTAL CURRENT ASSETS	5,341	24,432	+ 19,091
Plant and Equipment	36,168	97,361	+ 61,193
Less Depreciation	17,894	44,177	+ 26,283
Net Property	18,274	53,184	+ 34,910
Investments	1,055	1,962	+ 907
Other Assets	784	1,874	+ 1,090
TOTAL ASSETS	$ 25,454	$ 81,452	+$ 55,998
LIABILITIES			
Accounts Payable	$ 478	$ 2,180	+$ 1,702
Accrued Taxes	653	5,702	+ 5,049
TOTAL CURRENT LIABILITIES	1,131	7,882	+ 6,751
Long Term Debt	.....	20,000	+ 20,000
Reserves	403	1,775	+ 1,372
Other Liabilities	249	250	+ 1
Preferred Stock	2,378	2,378	.....
Common Stock	15,464	24,902	+ 9,438
SURPLUS	5,829	24,265	+ 18,436
TOTAL LIABILITIES	$ 25,454	$ 81,452	+$ 55,998
WORKING CAPITAL	$ 4,210	$ 16,550	+$ 12,340
CURRENT RATIO	4.7	3.1	— 1.6



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	.81	.96	1.05	.94	1.21	1.18	1.24	1.93	2.55	2.24	3.03	
DIV.	.50	.75	.75	.62½	.62½	.62½	.62½	.90	1.00	1.25	1.31¼	
Wkg Cap $ Mil	7.6	7.9	8.6	10.7	11.8	15.3	17.9	20.3	21.5	30.5	31.0	



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	1.90	2.28	2.59	1.80	1.76	1.62	1.68	3.05	4.01	5.45	5.34	
DIV.	.56⅔	.83⅓	1.08⅓	1.00	1.00	1.00	1.00	1.08⅓	1.33⅓	*1.66⅔	1.83⅓	
Wkg Cap $ Mil	43.8	39.5	39.0	45.1	54.8	65.9	78.8	76.4	73.3	98.1	129.0	

* Plus 10% Stock Div.

MINNEAPOLIS HONEYWELL REGULATOR COMPANY

BUSINESS: Company is the leading manufacturer of automatic heat controls for both residential and industrial use. Canadian and British subsidiaries produce a number of items and distribute the parent company's entire line.

OUTLOOK: The essential character of temperature controls in refrigeration, air conditioning and space heating equipment has established a dependable and growing demand for many specialties produced by this long established manufacturer, and the development of electronics is now broadening its operations. The majority of new homes, institutions and industrial plants now being constructed in large numbers will probably be equipped with Minneapolis Honeywell devices in some form. In progressive public recognition of the advantages from the company's numerous products, peace time volume has advanced about tenfold in two decades, rising markedly in postwar to a record high of $72.7 million in 1949. Net earnings of $8 million or $3.03 per share last year were also of peak proportions. In the first quarter of 1950, net earnings of 92 cents per share compared with 49 cents in the 1949 quarter. Substantial backlog orders promise to maintain operations on a high level for many months to come. Strong finances and current large earnings have enabled the company to retire funded debt at a rapid pace. Of $7.5 million 2.85% debentures due 1963, $2.5 million were called for prepayment last fall, but current assets still exceed current liabilities by a margin of better than four for one. In order to adjust capitalization to Minneapolis Honeywell's steadily increasing stature, the common stock was split 3 for 1 in 1936, 2 for 1 in 1944 and again 2 for 1 on March 31, 1950, eloquent testimony of the company's growth characteristics.

DIVIDENDS: From an annual rate of 62.5 cents per share (adjusted) in 1945, payments have consistently risen to $1.31 in 1949. An initial quarterly distribution of 40 cents was made on the recently split common stock on June 10, pointing to annual payments of at least $1.60.

MARKET ACTION: Recent price—36 compared with a 1950 high of 42¼ and a low of 34½ A yield of around 4.5% seems indicated.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1940	March 31 1950	Change
		(000 omitted)	
ASSETS			
Cash	$ 3,929	$ 4,566	+$ 637
Marketable Securities	.....	4,107	+ 4,107
Receivables, Net	1,961	10,087	+ 8,126
Inventories	4,119	20,422	+ 16,303
TOTAL CURRENT ASSETS	10,009	39,182	+ 29,173
Net Property	3,265	13,121	+ 9,856
Investments	69	222	+ 153
Other Assets	448	2,091	+ 1,643
TOTAL ASSETS	$ 13,791	$ 54,616	+$ 40,825
LIABILITIES			
Accounts Payable	$ 292	$ 3,000	+$ 2,708
Accruals	326	.....	— 326
Accrued Taxes	1,447	5,478	+ 4,031
TOTAL CURRENT LIABILITIES	2,065	8,478	+ 6,413
Funded Debt	.....	5,000	+ 5,000
Preferred Stock	3,070	11,000	+ 7,930
Common Stock	3,291	3,802	+ 511
Surplus	5,365	26,336	+ 20,971
TOTAL LIABILITIES	$ 13,791	$ 54,616	+$ 40,825
WORKING CAPITAL	$ 7,944	$ 30.704	+$ 22,760
CURRENT RATIO	4.8	4.6	— .2

NATIONAL STEEL CORPORATION

BUSINESS: A completely integrated steel producer ranking about fifth in the industry. Annual ingot capacity is approximately 4.5 million tons.

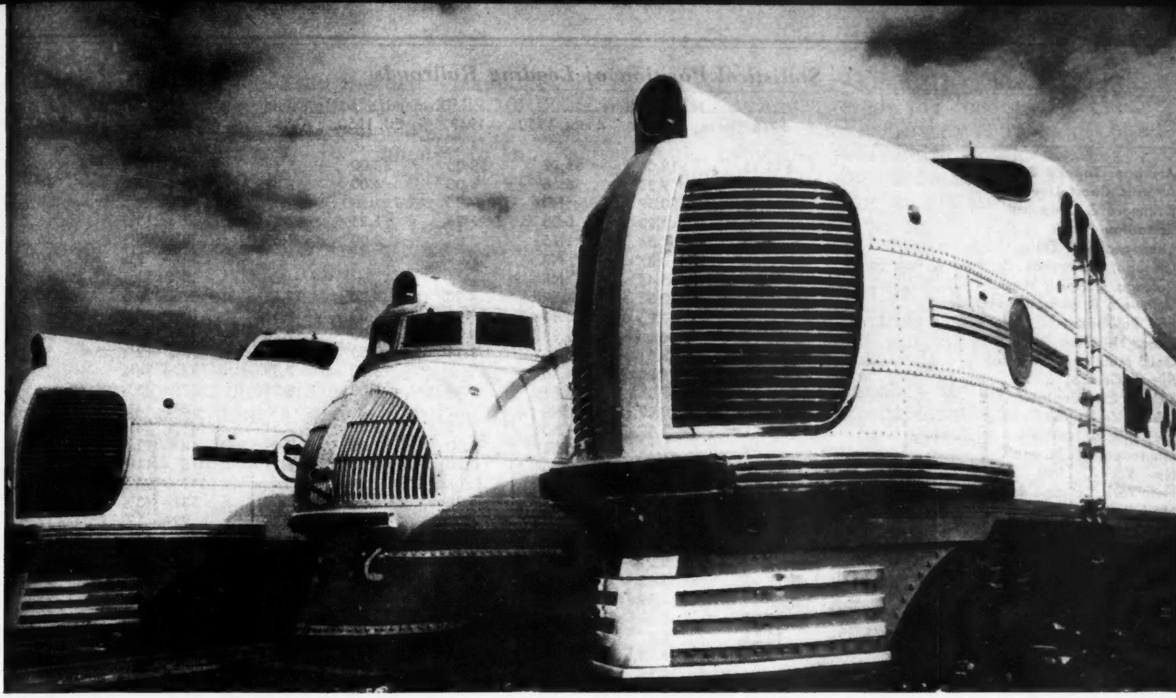
OUTLOOK: The continued heavy demand for lighter types of steel in which this company specializes, including sheets, strip and tin plate, enhances the intermediate outlook. That the management views the future with confidence is indicated by a 1950 construction program involving $25 million, closely comparable to last year's outlays for this purpose. This probably results from a conviction that the automobile industry, a customer for about a third of the company's output, will continue its activities at a rather high level for some time ahead, as might also be said of the building, tin container and home appliance groups which the company also supplies. National Steel should increasingly benefit from modernization of facilities, the strategic location of its five major plants and its large resources of iron ore and coal reserves. An impressive growth record has been attained since prewar, with annual sales expanding to $424.8 million in 1949 from $157.9 million in 1940. Net income in the same period rose to $39.3 million from $12.5 million, with most of the gains achieved in the last five years. On a per share basis, earnings of $5.45 in 1948 and $5.34 in 1949 were reported. Further marked gains are indicated for 1950, with first quarter net reported at $1.82 despite the steel strike during that period. National Steel's financial status is exceptionally strong with current assets of $168.3 million, including $98 million cash and marketable securities, compared with current liabilities of $39.3 million.

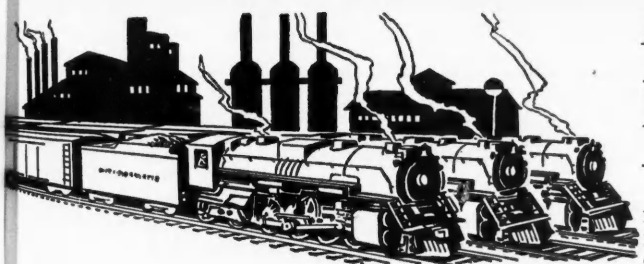
DIVIDENDS: Adjusted for a 3-1 stock-split last March, dividends have risen from $1 per share in 1945 to $1.83 in 1949. An initial dividend of 60 cents a share was paid on the split shares in June, pointing to annual payments of $2.40.

MARKET ACTION: Recent price—36½ compared with a 1950 range of high—41⅞, low—35⅝. The indicated yield is 6.5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949	Change
		(000 omitted)	
ASSETS			
Cash	$ 18,323	$ 83,953	+$ 65,630
Marketable Securities	1,500	14,000	+ 12,500
Receivables, Net	13,520	26,364	+ 12,844
Inventories	35,834	44,056	+ 8,222
TOTAL CURRENT ASSETS	69,177	168,373	+ 99,196
Plant and Equipment	235,251	383,551	+ 148,300
Less Depreciation	80,751	203,867	+ 123,116
Net Property	154,500	179,684	+ 25,184
Investments	8,905	8,608	— 297
Other Assets	4,767	3,814	— 953
TOTAL ASSETS	$237,349	$360,479	+$123,130
LIABILITIES			
Accounts Payable	$ 16,389	$ 25,958	+$ 9,569
Accruals	2,163	11,323	+ 9,160
Accrued Taxes	11,068	2,050	— 9,018
TOTAL CURRENT LIABILITIES	29,620	39,331	+ 9,711
Reserves	4,423	26,318	+ 21,895
Long Term Debt	62,446	40,000	— 22,446
Capital Stock	55,117	61,349	+ 6,232
Surplus	85,743	193,481	+ 107,738
TOTAL LIABILITIES	$237,349	$360,479	+$123,130
WORKING CAPITAL	$ 39,557	$129,042	+$ 89,485
CURRENT RATIO	2.3	4.2	+ 1.9





Is Pessimism Toward Railroads Justified?

By ROGER CARLESON

Predicated on what seems to be in store for the industry over the balance of 1950, and looking ahead a bit farther—into early 1951—railroad shares, both speculative and investment grade, certainly do not appear overpriced at this juncture. Especially so in the light of the severe price correction which has recently occurred, and the potential impacts of the Korean developments, with their implications of a speed-up in defense spending and corresponding maintenance of high level economic activity. To start off, let's first look at the present earnings picture of the railroad industry:

Despite the almost uninterrupted crippling of traffic by coal strikes and business dislocations caused by other labor difficulties, despite unseasonal weather over much of the nation in early months and the late opening of the Great Lakes, gross revenues of all Class 1 roads in the first four months of 1950 declined less than 7% from the comparable period of 1949.

While gross receded from $2,892,836,000 to $2,699,118,000 in the January-April period, operating expenses decreased 7.7% to $2,184,812,000 and net operating income shaded the 1949 figure of $195,970,000 by less than $10,000,000 (4.9%).

Net income in the first four months of approximately $88,000,000 was off slightly more than 10% from the preceding year's $98,000,000. However, reflecting the over-all betterment as the year progressed, April net declined only about 5% to $38,000,000, while April gross, alone, $713,820,000, was off only 4.5%.

Now let's examine these statistics more closely, weigh them against industry trends, other factors and past experiences, admitting that the early showing proved disappointing in the light of general business volume and activity.

First, the January-to-April period has seldom counted too heavily in the full year performance. For example, in 1948, when industrial activity broke all records for a peacetime year since 1929, the start was very poor.

But secondly, and equally important in forecasting the probable 1950 showing as compared with 1949, it must be understood that traffic and earnings fell sharply in the summer and fall months last year as strikes in the coal and steel industries threw business out of gear. Put another way, that part of 1949 which should have provided the best in the way of revenues, proved the worst.

This experience is not likely to be repeated in 1950. While actual earnings figures beyond April are not yet available, the tempo of business continues high in most fields, particularly in lines which contribute importantly to rail revenues.

This condition, in combination with numerous operating economies made possible despite constant fencing with labor, and also because comparisons from now on will be with the low level of 1949 operations, should be reflected in widening gains for most

Statistical Position of Leading Railroads

	Net Per Share			Dividends		†Yield	1950	Recent
	1948	1949	4 mos. 1950	1949	Est. 1950	%	Range	Price
Atchison, Topeka & Santa Fe	$23.33	$18.06	$5.72	$8.00	$8.00	7.14	121¾-100⅛	112
Atlantic Coast Line	9.32	9.39	6.66	4.00	4.00	9.09	48¾- 41	44
Baltimore & Ohio (a)	2.12	def. 0.59	*Nil	......	......	......	12¼- 9	10½
Canadian Pacific	1.70	1.93	0.05	1.25	1.25	7.81	17¼- 13⅝	16
Chesapeake & Ohio	3.72	1.36	*1.15	3.00	2.00	7.69	30⅞- 25½	26
Chicago, Milwaukee, St. Paul & Pac. (a)	def. 0.33	def. 0.87	Nil	......	......	......	11¾- 7⅛	10
Chicago & North Western (a)	2.93	def. 5.44	Nil	......	......	......	15¾- 11	13
Delaware & Hudson Company	13.95	2.85	1.67(b)	4.00	4.00	12.12	37⅜- 29⅝	33
Erie Railroad	4.09	0.93	*1.11	1.00	1.00	8.51	13½- 10⅝	11¾
Great Northern Pfd.	8.91	6.05	def. 2.88	4.00	3.25	9.28	44¼- 33¼	35
Gulf, Mobile & Ohio (a)	4.92	2.61	*0.85	0.50	0.50	3.57	17⅜- 12⅞	14
Illinois Central	14.60	11.20	*4.46	......	3.00	7.89	42⅞- 34¼	38
Kansas City Southern	15.51	12.54	3.81	4.00	4.00	8.51	57½- 45½	47
Lehigh Valley (a)	1.16	0.02	Nil	......	......	......	6⅝- 4¾	5½
Louisville & Nashville	7.91	3.52	1.50	3.52	3.52	9.51	41⅞- 34½	37
Minneapolis & St. Louis	3.69	2.18	0.53	1.00	1.00	9.09	14⅜- 11	11
New York Central	2.28	1.51	def. 0.55	0.50	0.50	4.17	15 - 11½	12
New York, Chicago & St. Louis	39.09	30.56	15.39	......	......	......	111 - 93	98
Norfolk & Western	6.75	3.56	*1.46	4.00	4.00	8.88	53⅜- 43½	45
Northern Pacific	4.97	3.93	def. 2.36	1.50	1.50	8.33	22⅜- 17	18
Pennsylvania	2.61	0.95	def. 0.13	0.75	1.00	6.45	18¼- 14½	15½
Reading	5.44	2.21	0.93	2.00	2.00	9.52	22⅝- 20⅜	21
St. Louis-San Francisco (a)	3.46	2.02	0.60	1.00	1.00	9.09	14¼- 9⅞	11
Seaboard Air Line (a)	6.59	4.89	2.85	1.50	2.00	7.14	30⅞- 20	28
Southern Pacific	10.27	8.08	1.92	5.00	5.00	9.52	58 - 49	52½
Southern Railway	12.52	6.87	2.98	4.00	3.00	8.57	38¾- 32¾	35
Texas & Pacific	15.06	9.73	3.43	4.00	4.00	8.25	55 - 44	48½
Union Pacific	14.24	10.26	2.65	6.00	6.00	7.19	89½- 81	83½
Virginian Railway	4.31	1.57	*1.10	2.50	2.50	9.09	31½- 27¼	27½

*—Five months.
†—Based on estimated 1950 payments.
(a)—On an "available" basis.
(b)—Railroad corporation only.

roads.

Bituminous coal output, perhaps the most vital volume factor in traffic, is now running at around 10,000,000 tons weekly, well ahead of the second-half 1949 rate; steel production continues to hold around its peak and throughout the heavy industries —to mention consumer goods—there is an optimism which has been borne out impressively by actual results.

Further, building activity which in terms of traffic means heavy shipments of lumber, sand, gravel, cement and miscellaneous items, to say nothing of structural steel, may be expected to remain at or near its present advanced level.

Then, there is growing belief that the export movement, particularly from Pacific Coast ports, may be accelerated by shipments related to the Korean war and the policy of strengthening of Island defenses. Consequently, despite intermittent strife on the labor scene, with an actual strike by switchmen of five mid-western roads and rumblings from the Brotherhood of Railroad Trainmen, Order of Railway Conductors and Railroad Yardmasters of America, all of whom regard the Presidential Fact-Finding Board's recommendations inadequate, there is considerable optimism over the traffic trend during coming months—principally because of the steady strengthening of tangible factors.

The present strike of switchmen, while not to be minimized as a threat to the iron and steel, copper and zinc industries, where demand has been large and supplies in short supply, and the further threat of a walkout by three other unions, cannot conceivably be allowed to cause prolonged dislocation of operations, especially in view of current and potential emergencies. Thus too much stress should not be placed on the labor factor at this time.

As it is, the industry is looking ahead, optimistically, to a relatively good year of traffic, and in the week ended June 24, more carloads of freight were moved than in any single week since November, 1948, as miscellaneous loadings rose sharply. In the East, roads are studying a program to offer more favorable rates to shippers of larger quantity less-than-carload freight in an attempt to combat competition from motor carriers. In the Midwest, the Shippers Advisory Board predicts a 7.8% increase in car loadings during the third quarter.

While passenger business cannot be expected to parallel the anticipated recovery in freight traffic and will continue to show a falling-off from the preceding year, its contribution could hardly be profitable even with a modest uptrend in travel. But any further lag of passenger traffic should receive full compensation from the upswing in freight receipts.

One of the industry's chief concerns, in addition to the need for heavy, sustained freight volume, is to keep costs under better control. Actually, it found it possible to reduce its operating ratio slightly in the initial four months of 1950 at a time when revenues were dropping.

If a similar and more pronounced trend can be achieved over the remainder of the year with revenues expanding, and this seems logical in view of maintenance and transportation savings, the latter through increased diesel locomotive usage, then a substantial gain can be carried through to final net income.

Barring something really unforeseen, it appears reasonable to estimate that the industry's 1950 total operating revenues will be between $8,650,000,000 and $8,750,000,000. This would compare with actual gross of $8,580,300,000 for 1949 and the 1948 all-time high of $9,671,700,000.

Net income, which in 1949 receded sharply from the $698,100,000-level of 1948 to $438,100,000, should not be less than $475,000,000 this year and it may well be possible for the industry to show a combined net of $500,000,000 or more, depending on the cost trend in the final quarter.

Of course, a wide disparity of results will be shown by different regions and different systems. That is why the sound-thinking investor will not judge any individual situation by the over-all outlook picture. Rather he must carefully analyze each stock in the light of its own relationship to factors affecting that particular road.

Consequently, supplementing this review of general industry conditions and potentialities, the following discussion of individual situations should prove a helpful guide to investor policies.

Only the more important rail issues, with an active following, can necessarily be covered, but attention is also directed to our statistical tabulation covering all major systems.

ATCHISON, TOPEKA & SANTA FE: The common stock, which is expected to receive a minimum of $8 in dividends during 1950, of which $6 a share represents the regular disbursement, has definite investment attraction in view of its large earning power and good record. Also, there is the continuing prospect that the management may soon take action, often rumored, to split the outstanding shares, with perhaps an increase in regular dividends after this takes place.

With 1950 gross revenues expected to show only a minor decline from the $482,700,000 of 1949 and with expenses under reasonably good control, net income probably will exceed $16 a share this year. This would compare with $18.06 earned in 1949; $23.33, in 1948 and $17.11 in 1947. The company had total current assets of $196,950,000 on Dec. 31, 1949 and net working capital of $109,902,000, with more than $119,000,000 in cash and equivalent.

ATLANTIC COAST LINE: By no means as strong an equity situation as Santa Fe, this issue nevertheless has developed large earning power in recent years, aided by investment income which is derived from its ownership of 823,427 shares of Louisville & Nashville stock. With 1950 profits likely to run well ahead of the $9.39 a share reported for 1949, possibly to reach the highest level since $19.54 was earned in 1944, dividends should continue at $4 annually.

This makes Coast Line an attractive speculation, a consideration which is accentuated by the liberal dividend yield at the current market level. The road's own earnings are primarily influenced by citrus crops and agriculture generally in the southeastern area, but industrial growth in the territory has stimulated an increasing volume of miscellaneous freight business.

Coast Line, through greater concentration on diesel power, is attempting to lower transportation costs and thus lift its own net operating income, lessening dependance on investment holdings.

CANADIAN PACIFIC: Capitalization of 13,400,000 shares of ordinary stock, with an active trading interest both here and in Canada, has made this issue one of the more popular of lower-priced rails. Fixed obligations of about $397,475,000 and $137,257,000 of 4% non-cumulative preference stock, issued in sterling, precede the "ordinary" issue.

The company has extensive sources of outside revenue, including steamship, hotel, mining, land development and express properties. A 51% interest in Consolidated Mining & Smelting provides substantial dividend income.

Aided by rate relief, Canadian Pacific should be able to earn better than $2 a share in 1950 which would compare with $1.93 a share in 1949, $1.70 in 1948 and $2.04 in 1947. Dividends should be maintained at the $1.25 annual rate in effect since 1945.

Canadian Pacific appears to have fair potentialities around its current level, predicated on its active participation in virtually all phases of Canada's economy and potential expansion of non-rail profits, with possible eventual segregation of a portion of its outside interests.

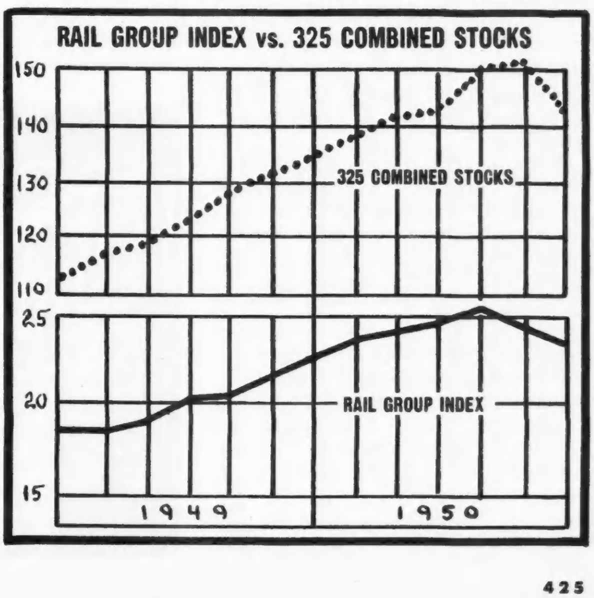
CHESAPEAKE & OHIO: Because of labor unsettlement in the bituminous coal fields in recent years which caused heavy losses in traffic, the common stock has lost just about all of its one-time investment standing. However, after directors had deferred action on dividends for two successive quarters, resumption was ordered at a rate which may stand at $0.50 quarterly, and it is possible that a special payment may be made late in 1950 if the present traffic level is maintained.

Following resumption of coal mining operations, profits have picked-up quickly and it is now thought that C. & O. will be able to show between $3.00 and $3.25 per share in 1950. In 1949 only $1.36 was earned. The road has diversified its traffic haul through absorption of Pere Marquette and now owns around 400,000 shares of New York Central.

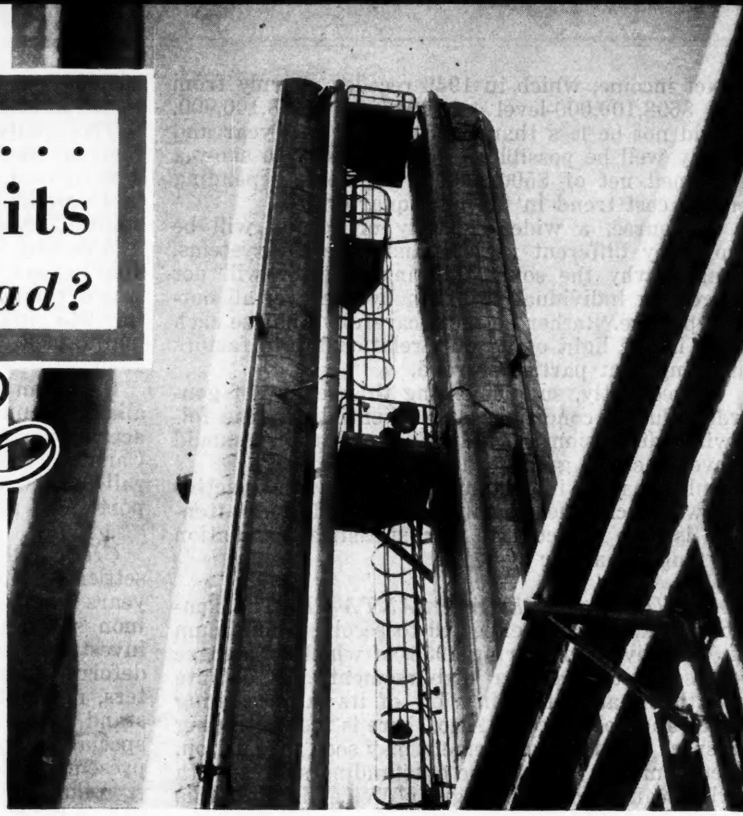
ERIE: With 1950 earnings estimated at around $2 a share compared with $0.93 available in 1948, the $0.50 semi-annual dividend seems fairly secure and on that basis the stock has a certain amount of speculative appeal among low priced rail shares.

The present improved level of profits has been supported by a high rate of activity in the Great Lakes region. Net working capital ($13,675,000 on March 31, 1950) was ample for all needs.

(*Please turn to page* 442)



New Wave of . . . Stock Splits *. . . . . Ahead?*



By

GEORGE W. MATHIS

With so many important concerns reporting larger earnings and displaying increased dividend liberality in the first half year, it is hardly a surprise that the number of stock splits effected or proposed has increased, following quite a lull in 1949. In the circumstances, interest has been stimulated in the search for other situations where split-ups may be logical in the relatively near future. For the benefit of our readers we have selected a few situations of this kind, although of course there is no certainty that the step under discussion will be taken.

Where capitalizations are readjusted through stock splits to reflect marked company growth, increased assets accumulated from retained earnings or as result of a substantial and probably permanent higher level of net income, it can be assumed stockholders will benefit from the receipt of additional shares without a corresponding cash outlay. In such instances the split-up procedure is entirely logical from every point of view, especially from that of managements who desire to broaden their stockholder lists by bringing quotations for the equities into a more attractive price range for the average investor. Additionally, some political and social criticism will likely be avoided by adjusting per share earnings and dividends to a greater number of outstanding shares.

Because the policies and motives of various directorates vary so widely, however, it is not always safe to infer that stock-splits will indicate higher dividends which in turn might create price appreciation over the longer term. Much less can statistical evidence prove reliable in predicting future split-ups. Numerous concerns have divided their shares repeatedly in past periods, whereas others showing consistent growth have refrained from recapitalizing for as much as two decades. Although General Motors Corporation, for example, has split its stock four times in twenty-six years, it waited from 1929 to the current year to propose the latest division. Despite a long continued uptrend in earnings to a peak of $16.78 per share in 1949 and a corresponding advance in the share price to above $200, Allied Chemical & Dye Corporation made no move for a split-up for decades until its recently proposed 4-1 distribution.

In postwar, the pace of split-ups has been accelerated by the substantial uptrend in industrial profits, with more than 180 firms subdividing their equities. The number reached a peak of 74 in 1946, causing a decline to only 17 in 1949 as logical candidates became fewer. In the first five months of 1950, though, twelve stocks listed on the Big Board or Curb Exchange were split, while awaiting stockholder approval are eight additional situations. The widely publicized logic for the 2 for 1 stock-split by General Motors has turned attention to other concerns that reasonably might have grounds for similar action. Managements are noting how substantially the stockholder lists of other concerns have expanded, following an automatic reduction in share prices. Additionally, the disadvantage of wide price swings for high-priced equities, even in normal markets, has been largely overcome by the lower quotations.

To cite a few cases where the number of stockholders has expanded impressively after a stock split: since 1946 the list of Celanese Corporation has grown from 13,493 to 23,876; that of American Home Products from 10,352

to 16,271; and share holders of United Fruit have increased to 60,648 from 38,199. In 1949 alone, duPont gained 15,000 new stockholders, while between last August and February 5 of the current year, U. S. Steel gained 8,427. The foregoing instances show how managements have benefitted, or later may benefit, from splitting shares, while in these and many other cases the stockholders have been 'rewarded by increased dividend liberality and frequently by price appreciation of their holdings.

Price Trend of Shares Split in First Half of 1950

	Effective Date of Split	Basis of Split	Pre-Split Price Adjusted	1949-50 High Low	Recent Price	Percent Change from Pre-Split Price to Recent Price
Community Public Service	5-13	3-1	15¼	18 - 9⅛	14	— 8%
Consolidated Gas of Balt.	4-11	3-1	26	27⅛-19⅜	25⅝	— 2
Emerson Radio & Phonograph	5-31	2-1	18½	20¼-11	16⅝	— 7
General Fireproofing	6-1	2-1	23	24¾-14⅝	20¾	— 9
Minneapolis-Honeywell	4-3	2-1	35¾	42¼-21¾	36	....
National Steel	3-31	3-1	35¾	41⅞-24½	36½	+ 2
N. Y. State Electric & Gas	3-29	2-1	28¾	28⅞-21½	24¾	—13
Pfeiffer Brewing	6-3	2-1	22	25 -13⅝	20½	— 7
Public Service of Colorado	5-23	2-1	28¼	28½-19	24¾	—11
Skelly Oil	5-19	2-1	59	65½-41⅜	53½	— 9
United Carr Fastener	4-3	2-1	26	28 -14⅞	24	— 7
Wheeling Steel	5-16	2-1	28¾	32 -14½	26⅛	— 9

Among numerous companies that conceivably might propose stock splits in the second half of this year, are naturally some whose shares for one reason or another are quoted in relatively higher price brackets. This factor normally reflects marked company growth, often without adequate readjustment of capitalization. In some situations, prospects for a split-up may be good even though the shares by ordinary standards may be currently at a moderate price level. More than one surprise in past months has been aroused where directors have proposed a subdivision of their equities, regardless of fairly modest quotations, in evident reflection of confidence in their company's continued growth progress, or merely to maintain share prices in the lower brackets.

Lone Star Cement Corporation, whose shares recently sold around 69, has consistently reported higher earnings for five years past, with net per share of $10.34 in 1949 compared with $2.92 in 1945. Earnings of $1.97 in the March quarter of 1950 versus $1.67 a year earlier indicate that the company has by no means exhausted its growth potentials, especially as plans have been made to erect a large new mill to expand capacity. For the past fourteen years, despite steady growth, no increase in the sole capitalization of 948,537 common shares has occurred. A revolving bank credit of $8 million should comfortably finance all capital needs for constructing the new facilities. Dividend policies have been rather liberal, with payments of $4.50 a share made in 1949.

As the outlook is bright for continued high level earnings by Lone Star Cement and only a few years ago it had only 12,000 stockholders, it could appear advisable to the directors to enlarge the number of shares to represent retained earnings and to increase the number of shareholders. At one time in the recent active market, the shares sold as high as 81, possibly in anticipation of such a move.

For a long time, shares of Singer Manufacturing Company have been frequently suggested as potential candidates for a stock split, and statistically it has been surprising that no action has been taken in this direction. The shares of this rather closely held corporation sold as high as 374 in 1946 and in the last eight years have never sold below 130. A recent price of 280 reflected 1949 earnings of $17.17 per share, an uninterrupted dividend record since 1863 and payments totaling $12 per share in 1949. In the circumstances and considering that a very thin market often causes price fluctuations of as much as $10 per share in a single day, it is not surprising that the directors at long last are reported to give consideration to a possible split in the near future.

Chrysler to Follow General Motors?

The proposal of a split-up by General Motors has suggested the possibility that Chrysler Corporation may follow suit with similar action. Such a move would seem quite logical in view of Chrysler's spectacular growth and its current favorable status. In the past twenty-five years, the company's net worth rose from $37 million, excluding good will, to around $456 million and in 1949 earnings soared to an all-time peak of $15.19 per share. It should be realized, though, that Chrysler has split its stock twice since 1925, the last time on a 2-1 basis in 1947, and that it already has a stockholder list of about 78,000, including indirect holders.

Despite high earnings and fairly generous dividends, furthermore, the stock in the current year has had a fairly conservative price range of high—81, low 62¾. Recent price was 70. On the other hand, the directors may have had in mind another stock-split, perhaps in the current year, when the authorized amount of common was increased to 15 million shares in April 1949 compared (*Please turn to page* 441)

Statistical Data on Shares Proposed for Split in Second Half of 1950

	Net Asset Value Per Share 1940	Net Asset Value Per Share 1949	Net Per Share 1949	Net Per Share 1948	Div. 1949	Price Range 1949-50 High Low	Recent Price	Basis of Proposed Split
Allied Chemical	$77.76	$131.39	$16.78	$14.35	$10.00	256¼-165	230	4-1
Atlas Powder	55.85	63.68	5.03	3.91	2.50	65¼- 42	57½	2-1
Bower Roller Bearing	10.22	23.23	5.64	6.64	3.00	42¼- 26	41½	2-1
General Motors	20.89	39.58	14.65	9.72	8.00	99⅛- 51⅞	85½	2-1
Mathieson Chemical	25.71	38.14	5.14	5.61	1.12	62½- 34⅜	52	2-1
Schenley Industries	11.90	53.08	6.73	8.20	2.00	35⅝- 22¼	34¼	5-4
Scott Paper	17.94	27.38	6.07	4.15	2.62	99 - 46¼	89	2-1
Youngstown Sheet & Tube	78.87	144.89	18.97	21.32	6.00	98⅜- 53⅝	85¼	2-1

FOR PROFIT AND INCOME

Correction

In one week the war scare did what nothing else had been able to do over a period of 12 months: namely, bring about a stock market reaction of "intermediate" proportions. Before this new factor came out of the blue, all indications suggested that another minor correction – although the biggest one up to that time—had been completed; and that the tendency was upward again, with an early test of the June 12 high of 228.38 in the Dow industrial average probable. The specter of war makes a world of difference. In this one week the industrial average had a net decline of 15.27 points. At the intra-day low about 34% of the maximum rise from the 1949 starting point had been cancelled. That ought to be enough, or nearly so, if it does not come to war. Bearing hopefully, if tentatively, on the question of a support level, in a week of wild gyrations and heavy selling drives the average made "triple-bottom" intraday lows within the range 206.33 and 206.03 on June 27, 29 and 30. Well, we shall see what we shall see.

If

If it comes to war, all bets—and "technical indications" – are off. We will make only two observations. First, if there is war, bear in mind that a fairly good start toward the discounting of it has already been made. Second, in this atomic age the pattern of World War II, and of the 1939-1942 bear-market anticipation of its impact on the U. S., will be of dubious usefulness as a guide to what you might expect. The market readjustment could be lightning-fast. Do not get too bearish in fear of war.

War Stocks

Assuming war, it will not be easy to single out the relatively favored "war stocks", since so much will depend on matters of strategy and duration. However, the aircraft manufacturing industry is the one most certain to get a big boost. All of the companies no doubt would have plenty of business; and a better-than-average position under excess profits taxation, assuming the latter did not differ greatly from that effective in World War II. Between such stocks as Boeing, Consolidated Vultee, Lockheed, Douglas, Grumman, United Aircraft, North American and Martin there probably would be little to choose. But you can be sure that the stock of some little known marginal company, not now doing at all well, will go up most. You can also be sure that anything qualifying as a "war stock" will be speculative, and very likely a poor long-term holding.

Groups

One week is not too illuminating as a test, and that is all we have to go on in any discussion here of the weekly stock-group indexes since this column is written several days ahead of press closing time. (We cannot write everything at the last minute.) However, groups holding up best in the first week of sharp reaction—the sharpest likely to be seen this summer, barring war—include oil, coppers, retail trade, fertilizer, cotton goods, machinery, aircraft and distillers. Some others did only slightly less well.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Atlantic Coast Line R. R.	5 months April 30	$7.49	$6.31
Murray Corp. of Amer.	9 months May 31	6.05	3.50
Firestone Tire & Rubber	6 months April 30	6.68	4.01
Hooker Electrochemical	May 31 Quarter	1.07	.59
Grand Union Co.	May 27 Quarter	.91	.80
Masonite Corp.	May 31 Quarter	2.46	.01
Consolidated Textile	June 3 Quarter	.62	.27
Union Pacific R. R. System	5 months May 31	3.34	1.60
Robbins Mills, Inc.	May 31 Quarter	1.22	.53
Chicago Rock Island & Pac.	5 months May 31	2.70	2.34

Down Most

Groups which have declined most from their 1950 highs include movie stocks, woolen goods, air lines, television stocks, beer stocks, gold mining, soft drinks and shoes. However, this has nothing to do with the war scare. These groups turned down some time go, when the general advance was still running strong. The war-scare reaction merely added something to their previously existing downward tendencies.

Freaks

On June 26 the Dow industrial average nose-dived 10.44 points under a heavy volume of war-scare selling. In that session American Metal, on a turnover of 3,400 shares, made a new high for the year and closed up fractionally on the day. Bower Roller Bearing, on a volume of 1,200 share, made a new high at $41\frac{3}{4}$. On June 29 the average fell 7.96 points, with points of strength in the market almost as scarce as hens' teeth. Two of them were Bower Roller Bearing, making a new high for the year at $42\frac{1}{4}$ on volume of 400 shares, and closing with a net gain of $\frac{1}{4}$; and Anderson-Prichard Oil, making a new high at $25\frac{5}{8}$ on a turnover of 22,500 shares, although closing off a fraction on the day. Obviously, somebody was buying these stocks for reasons they believed to be good and sufficient. Who and why, this column does not know. The three stocks in question are not "extra special" in any way. So you can put it down as a freak, not too unusual, of the market. On the rare days of a sensational decline or advance in the average, a few stocks will generally go in the opposite direction.

Handwriting

If an automobile company cannot make money under recent or present conditions—or if profits have definitely slipped — that would seem to be the handwriting on the wall, clear for all to see. It means bigger losses or very small profits when the competitive going really gets rough, as it will in due time. Studebaker in the strongest of the so-call independent companies. This column would rank Nash-Kelvinator next, followed by Hudson. The long-run question for Kaiser-Frazer, Packard and Willys-Overland—maybe even for Hudson—may be survival itself. Kaiser-Frazer hit its peak in 1947 with net of $4 a share, shifting to a large deficit by 1949. It will probably lose money this year. Compared with their peaks in 1948, profits of Packard and Willys were about cut in half last year; and probably will be still lower for 1950. Hudson slipped to $5.30 a share last year, from $7.28 in 1948, or by roughly 30%; and is likely to slip at least moderately further this year. Studebaker and Nash forged ahead strongly in 1949 profits. Barring war, they will about duplicate—or modestly better—1949 results this year.

White

Either way you figure it, White Motor shapes up as a meritorious speculation. The cycle of truck demand turned upward early this year, after a protracted downswing from the 1947 high. White earned nearly twice as much (53 cents a share) in the first quarter as in the entire 1949 first half year; and will easily better 1949's low full-year net of $1.41 a share. Finances are adequate and the $1 dividend could be bettered in time. With the stock around $18\frac{1}{8}$, in a 1950 range to date of $21\frac{3}{8}$-$15\frac{1}{8}$, this is the view ex-war. On the other hand, truck business is good in wartime. Thus, White earnings for 1942-1945 ranged between $2.96 and $4.49 a share, despite the excess profits tax. The stock sold at more than double its present price in 1945.

Air-Conditioning

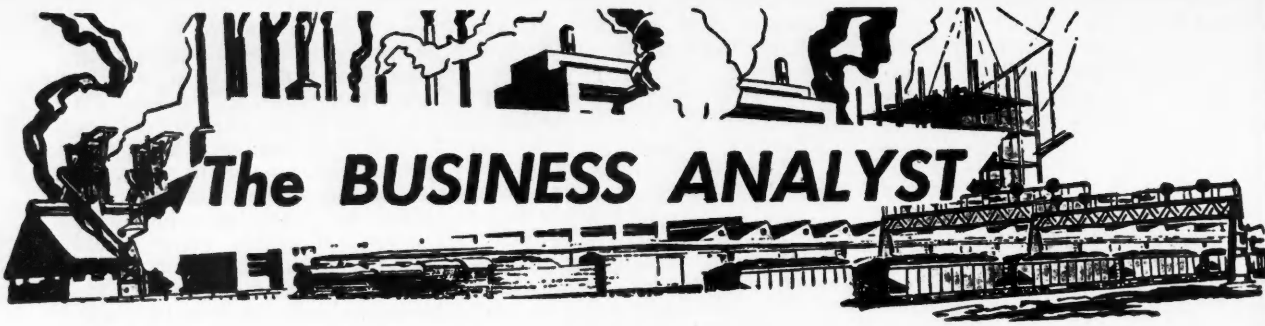
After years of talk and slow going, home air-conditioning — at least to the extent of single-room units—is beginning to go places. The percentage increase in output this year will be spectacular; and still only a beginning. Philco is the biggest maker. The trouble, from a speculative viewpoint, is that it is too big, and has too many other irons in the fire, to hit the jackpot with air-conditioning units. The same is so of all the larger companies in the field. On the other hand, the operating records of Carrier and York, two specialists in air-conditioning, are not too impressive. This column's choice for a speculative play over a period of several years would be Fedders-Quigan. This company is a well-situated maker of auto radiators and other auto parts, with Chrysler the biggest buyer. But it has also for years made commercial air-conditioning. Comparatively recently it marketed a single-room unit under its own name, and gained strong trade acceptance. This might well be the company to hit the air-conditioning jackpot. That is why the stock is selling around $17\frac{1}{2}$, compared with from 3 or so down to pennies a share in all years prior to 1945. Earnings were only $1.47 a share last year; but that was a new peak and it probably will be topped this year. The dividend rate is $1 a year.

Growth

Ashland Oil had sales of only about $5.5 million a year back in 1937. As late as 1942 they were only $16.7 million and assets only $11.1 million. Last year sales were up to $102.3 million, assets to about $90 million. The 1949 net was $5.30 a share, a new peak, and should be bettered this year. Although engaged in all divisions of the oil industry, the company is outstanding in efficiency of marketing. It has grown mainly by acquiring and building up less efficient companies. Acquisitions during the recent past have been large enough to test the company's absorbing capacity. If they work out as well as previous ones have —and that is quite an "if"—the stock could prove cheap at 22.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

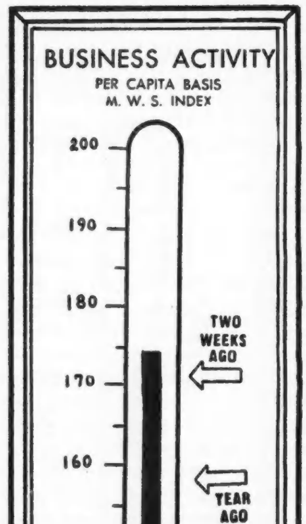
		1950	1949
Beatrice Foods	May 31 Quarter	$ .67	$ .73
Schenley Industries	9 mos. May 31	5.67	5.84
Ex-Cell-O Corp.	6 mos. May 31	2.69	2.91
Norfolk & Western Ry.	5 mos. May 31	1.46	1.99
Sheaffer (W. A.) Pen Co.	May 31 Quarter	.68	.80
McCord Corp.	9 months May 31	4.27	4.34
Wyandotte Worsted Co.	May 31 Quarter	.21	.31
Chesapeake & Ohio Ry.	5 months May 31	1.15	1.69
Kroger Co.	24 weeks June 17	3.52	4.00
Champion Paper & Fibre	Year March 31	7.55	8.70



What's Ahead for Business?

By E. K. A.

There is evidence that at mid-year we may have just about reached the high of the 1950 boom, but looking ahead through the second half, there is little to point to much of a decline apart from the expected mid-summer lull. The Federal Reserve Board intimates that industrial production in June may have hit an all-time high, slightly exceeding the postwar peak, made late in 1948, of 195% of the 1935-39 average. Elsewhere, the Commerce Department reports manufacturers' sales and new orders during May substantially above April, with the gains due to continued expansion of industrial activity. Thus sales in May totalled $19.4 billion, a 9% increase over April and $2.3 billion more than in May 1949. The volume of durable goods sold was 18% above a year ago, and compares with a 10% rise for non-durables.



All of which points to continued high level activity this fall, particularly the further rise in new orders. Auto output will go on breaking records and there is every expectation that building will keep up its boom through most of the year. If anything, the latest war scare will tend to intensify consumer as well as industrial demand. It would be astonishing if the public, as well as business, would not anticipate future needs, or the possibility of higher prices, on the theory "to get things while the getting is still possible."

Much will depend on the course of the "lukewarm war" and its possible implications and ramifications. Business will likely be cautious about taking on over-priced inventories if the Korea incident promises to prove a "short incident." If not, a different attitude may prevail, for doubtless the possibility of a big war would have a different effect on sentiment and business policies.

But whereas a mild inflation spurt could be set off even by the current little war, if only because it will set to work numerous price-prodding forces such as inventory buying, stepped-up stockpiling, etc., a real war would quickly bring a complete price freeze by the Government, plus a full set of controls over business far more stringent and rigid than existed during the last war. Full war controls are on paper but won't go to Congress without a real blow-up.

If anything, the crisis on Korea may further remove whatever doubt there may exist about the near term business outlook, if only because of the assurance that more Government spending lies ahead, perhaps a good deal more. Business inventory buying may or may not take on new impetus, but any weakening of consumer buying of durable goods is bound to be further delayed. The demand for new autos, particularly, should remain strong.

July-August, nevertheless, may see a slight easing of general activity of strictly seasonal character, but perhaps less so than would normally have to be expected. Some of the increase in June activity has been in anticipation of the July industrial vacation close-downs, and this stimulus of course will be absent this month, but others may arise depending on the trend of events abroad. At any rate, there are no significant elements of weakness in the business picture; even recent soft spots have hardened.

The only threat to stability is the labor stoppage at several western railroads with potentially crippling effects on many segments of industry, and the possibility of another rail strike on July 15 if the present 30-day "cooling off" period fails to "cool off." Amidst the war scare excitement, these dark spots in the labor picture have been all but ignored though some freight embargoes have already been imposed and the steel industry's ore supply might be jeopardized in the event that the switchmen's strike against five western carriers drags on.

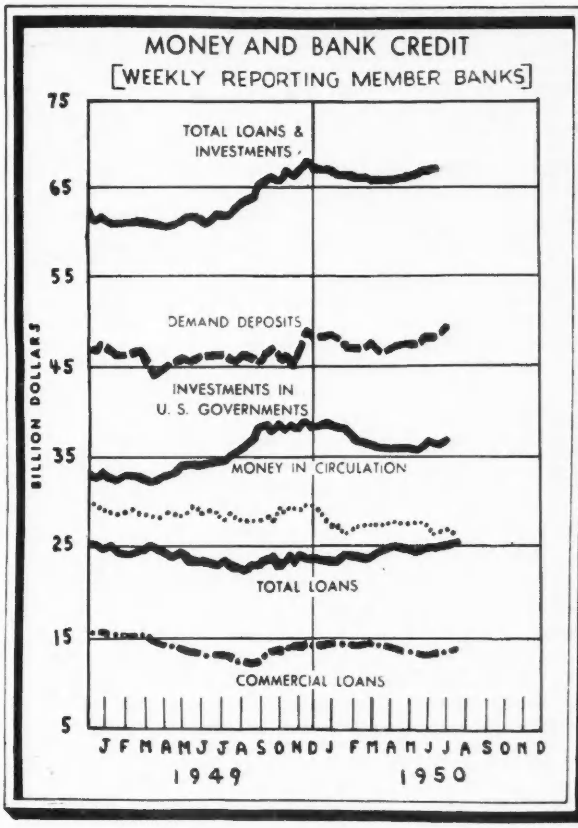
Frenzied Steel Demand

The latter would be a serious matter, for pressure for steel is as intense as ever. According to the Iron Age, the steel market is the center of a growing frenzy with consumers calling on every procurment trick they know to assure themselves enough metal to keep production lines humming at a record shattering pace. From a short term viewpoint, steel demand is insatiable. Long term factors indicate a noticeable easing of supply but this expected relief is some months hence. To what extent it may be further put off by the situation in Korea remains to be seen.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—During the final week of June, the South Korean crisis precipitated the sharpest decline in common stocks, and on the heaviest volume of transactions, for any week since mid-May, 1940, when the fiction of a "phony war" was exploded by Hitler's invasion of the Low Countries and the ensuing fall of France. By comparison, the market's response to the Japanese air attack upon Pearl Harbor on Sunday morning of December 6, 1941, which automatically brought us into World War II, was a very mild affair. Of course the technical setting was much different then. By December of 1941, progressively deteriorating conditions abroad had led to general acceptance of a belief that our active participation in the war was inevitable. It was only a question of when. Last month, the market had been lulled into a vulnerable sense of security by booming business and 12 months of advancing prices interrupted only by brisk minor reactions. By mid-May, 1940 the market had recovered moderately from its war slump under a growing hope that the Maginot Line would prove to be an unsurmountable barrier. The military solons were caught almost unprepared when Hitler's minions simply toured around that obstacle. On the London stock market, gains of a month were wiped out in a few hours by the Korean news. In the Paris black market, bar gold rose 9%. At New York, securities of all grades and classes reflected the weakness in common stocks. New York bank stocks and high grade preferred stocks sold off to the lowest average level since February 4; corporate bonds slipped back to the lowest since last December 3, with rail bonds reaching the lowest point since last July 30; foreign government dollar bonds closed at the lowest average price since January 14; the bank eligible Victory 2½s sagged to the lowest price since June 25 of last year, while the restricted issue touched the lowest price since May 13, 1949. The Treasury closed its 1950 fiscal year with a budget deficit of only $3,122 million, $2,378 million less than the President's January forecast of $5.5 billion. For the 1949 fiscal year a budget surplus of $1,189 million was reported; but this was achieved by an act of bookkeeping ledgerdemain (misspelling intentional) by which a $3 billion trust fund was set up from the 1948 surplus upon which to draw for E. C. A. expenditures of the following year. Thus actually, fiscal 1949 closed with a $1,811 million deficit. The Federal gross debt increase to $4,587 million in fiscal 1950; but at $257,357 million is still $22,412 million below its all-time high touched in February, 1946. Member bank reserve balances declined about $2,050 million in fiscal 1950—mainly in consequence of sales by the Federal Reserve banks of around $1.3 billion of U. S. securities, a decline of $250 million in gold stocks, and increases of $900 million in Treasury and nonmember deposits with the Federal, which were only partly offset by contraction of $400 million in the amount of currency in circulation. For weekly reporting member banks, fiscal 1950 witnessed increases of around $300 million in commercial loans, $1.4 billion in other credit extensions, $2.4 billion in holdings of U. S. securities and $1.2 billion of other securities; thereby accounting for expansion of about $5.3 billion in total earnings assets. On the liability side, there were approximate increases of $1.2 billion in demand deposits, $300 million in time deposits, $1.2 billion in U. S. Government deposits, $200 million in capital, and $100 million in net deposits of correspondent banks, with a resulting decline of $1.4 billion in reserves. U. S. investments abroad



increased by around $1.5 billion last year, against a gain of only $0.5 billion in assets owned by foreigners in the U. S. The result was a net increase of about $1 billion in our position as a creditor nation.

TRADE—Department store sales rose to 3.5% above last year for the fortnight ended June 24, compared with a cumulative dip of 2% for the year to date. Several types of Japanese tools are being offered here in large volume to wholesale dealers at less than half the prices quoted on American products. There are also some competitive offerings from Britain and Germany at discounts of as much as 25%.

INDUSTRY—Production and employment continue to expand; though there are some indications that demand had begun to ease off a bit prior to the Korean crisis.

COMMODITIES—Spot and futures indexes soared to new heights in nearly two years, spurred by news of a warming cold war.

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With virtually all components of our business showing better than normal seasonal gains, the nation's physical volume of

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	May	1.13	1.11	1.18	1.55
Cumulative from mid-1940	May	396.4	395.3	382.0	13.8
FEDERAL GROSS DEBT—$b	June 28	256.5	256.3	251.4	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	June 21	48.0	47.9	46.3	26.1
Currency in Circulation	June 28	27.0	26.9	27.4	10.7
BANK DEBTS—13-Week Avge.					
New York City—$b	June 21	9.01	9.04	8.59	4.26
93 Other Centers—$b	June 21	13.29	13.20	12.09	7.60
PERSONAL INCOMES—$b (cd2)	Apr.	219.6	225.5	212.6	102
Salaries and Wages	Apr.	141.7	140.0	138.1	66
Proprietors' Incomes	Apr.	42.8	43.5	45.0	23
Interest and Dividends	Apr.	18.1	17.9	17.1	10
Transfer Payments	Apr.	17.0	24.1	12.4	3
(INCOME FROM AGRICULTURE)	Apr.	17.8	18.4	20.8	10
POPULATION—m (e) (cb)	Apr.	151.2	151.0	148.5	133.8
Non-Institutional, Age 14 & Over	Apr.	110.5	110.4	109.4	101.8
Labor Force	Apr.	63.5	63.0	62.3	57.5
Military	Apr.	1.33	1.35	1.49	1.89
Civilian	Apr.	62.2	61.7	60.8	55.6
Unemployed	Apr.	3.5	4.1	3.0	3.8
Employed	Apr.	58.6	57.5	57.8	51.8
In Agriculture	Apr.	7.2	6.7	7.8	8.0
Non-Farm	Apr.	51.5	50.9	50.0	43.8
At Work	Apr.	49.9	49.2	48.6	43.2
Weekly Hours	Apr.	40.8	41.2	41.5	42.0
Man-Hours Weekly—b	Apr.	2.04	2.03	2.02	1.82
EMPLOYEES, Non-Farm—m (lb)	May	43.2	42.9	42.7	37.5
Government	May	5.9	5.9	5.8	4.8
Factory	May	11.8	11.6	11.3	11.7
Weekly Hours	May	39.9	39.7	38.6	40.4
Hourly Wage (cents)	May	144.1	143.4	140.1	77.3
Weekly Wage ($)	May	57.50	56.93	54.08	21.23
PRICES—Wholesale (lb2)	June 27	157.0	157.1	153.5	92.5
Retail (cdlb)	Apr.	184.1	183.8	189.2	116.2
COST OF LIVING (lb3)	May	168.6	167.3	169.2	100.2
Food	May	200.3	196.6	202.4	113.1
Clothing	May	185.1	185.1	191.3	113.8
Rent	May	123.5	123.1	120.4	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	May	11.56	11.06	10.76	4.72
Durable Goods	May	4.13	3.75	3.52	1.07
Non-Durable Goods	May	7.43	7.31	7.24	3.65
Dep't Store Sales (mrb)	May	0.82	0.72	0.83	0.42
Retail Sales Credit, End Mo. (rb2)	May	10.05	9.75	7.95	5.46
MANUFACTURERS'					
New Orders—$b (cd) Total	May	19.5	18.6	15.7	14.6
Durable Goods	May	8.5	8.5	6.0	7.1
Non-Durable Goods	May	11.0	10.1	9.7	7.5
Shipments—$b (cd)—Total	May	19.4	18.4	17.1	8.3
Durable Goods	May	8.6	8.2	7.3	4.1
Non-Durable Goods	May	10.8	10.2	9.8	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Apr.	54.9	55.1	58.0	28.6
Manufacturers'	Apr.	31.0	31.1	33.9	16.4
Wholesalers'	Apr.	9.4	9.3	9.3	4.1
Retailers'	Apr.	14.5	14.7	14.8	8.1
Dept. Store Stocks (mrb)	Apr.	2.3	2.1	2.2	1.4
BUSINESS ACTIVITY—1—pc	June 24	174.0	172.2	157.9	141.8
(M. W. S.)—1—np	June 24	203.5	201.5	181.5	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 000)

Business Activity expanded sharply during the fortnight ended June 24 to a level 12.1% above last year at this time. This upturn had no connection with the South Korean crisis, which burst into the news as the fortnight ended.

* * *

But the President's sudden reversal of a five-year's policy of appeasement, following the invasion of South Korea by communist North Korea, is bound to have profound influence upon **Industrial Trends** in the months to come. It would be fatuous to expect that Stalin will back down, with consequent cuts in our outlays for defense. From the beginning of history, dictators who aspired to rule the world have been restrained only by superior force. Stalin will prove no exception, even if he should decide to play possum for a spell while further enhancing his war potential.

* * *

What this adds up to is stepped up expenditures for defense which, coming at a time when business is already booming, will intensify current scarcities of certain basic materials, such as metals, thereby leading to an **Inflationary** climb in prices, with inevitable resumption of war-time controls. If the present torrid cold war should develop into an extensive shooting war, conditions here could approach the chaotic.

* * *

Last, but not least, if a political regime has needed five years and a war threat to reverse its policy of appeasing the communists, how long will it take to stop appeasing our own **Pressure Groups** with handouts and subsidies? If bigger outlays for defense are piled upon lavish expenditures for vote buying, the inflation balloon could go on swelling until it bursts. The late June spurt in commodity prices shows that traders and processors know their book.

* * *

While waiting for the next moves by Stalin and Truman it may be helpful to review recent reports on business trends for the relatively peaceful first half year. Thus Washington has predicted that expenditures on new **Construction** this year will reach an all-time record high of $26 billion, with the second half about equalling the first half. For five months, actual outlays were 21% ahead of the like period last year, with dwelling units started up 53%. In all, it is predicted that upwards of 1,200,000 new dwelling units will be started this year, against actual starts of

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Apr.	189	187	179	174
Mining	Apr.	142	144	148	133
Durable Goods Mfr.	Apr.	221	212	212	220
Non-Durable Goods Mfr.	Apr.	179	180	162	151
CARLOADINGS—t—Total	June 24	810	806	803	833
Manufactures & Miscellaneous	June 24	382	382	336	379
Mdse. L. C. L.	June 24	82	82	91	156
Grain	June 24	51	48	65	43
ELEC. POWER Output (Kw.H.) m	June 24	6,102	6,012	5,466	3,267
SOFT COAL, Prod. (st) m	June 24	10.5	10.4	11.9	10.8
Cumulative from Jan. 1	June 24	222	212	258	446
Stocks, End Mo.	Apr.	37.6	28.0	66.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	June 24	5.4	5.4	4.9	4.1
Gasoline Stocks	June 24	115	116	116	86
Fuel Oil Stocks	June 24	41	40	66	94
Heating Oil Stocks	June 24	51	49	63	55
LUMBER, Prod.—(bd. ft.) m	June 24	827	831	714	632
Stocks, End Mo. (bd. ft.) b	Apr.	6.4	6.3	7.2	12.6
STEEL INGOT PROD. (st) m	May	8.55	8.21	7.60	6.96
Cumulative from Jan. 1	May	39.0	30.4	39.5	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	June 29	287	256	181	94
Cumulative from Jan. 1	June 29	5,665	5,378	3,934	5,692
MISCELLANEOUS					
Paperboard, New Orleans (st)t	Jan. 24	209	206	159	165
U. S. Newsprint Consumption (st)t	May	522	524	509	352
Do; Stocks (mpt), End of Month	May	555	540	609	523
Motor Vehicles, Factory Sales—t	May	697	559	481	352
Hosiery Production (pairs)m	Apr.	127	169	134	150
Footwear Production (pairs)m	Apr.	36.6	46.5	37.6	34.8

PRESENT POSITION AND OUTLOOK

1,025,000 last year. Even industrial and commercial building, which had been declining for over two years, staged a sharply better than seasonal upturn in May. It is thus scarcely surprising to learn that new orders booked by **Furniture** makers during May were 54% above the corresponding month last year.

* * *

New **Locomotives** installed during the first five months reached a 27-year high; but of the 922 installed, all but 4 were diesels. Orders for **Machine Tools** booked in May were at a 4-year high.

* * *

The S.E.C. and Commerce Department, in their second upward revision this year, now estimate that business expenditures for new **Plant and Equipment** for the first nine months of the current year will total $12.7 million, only 6% below the corresponding period last year. The record spending year, 1948, brought total outlays of $19.2 billion, against $18.1 billion last year.

* * *

New Orders booked in May by manufacturers of durable goods were about the same as for April; but were 42% ahead of May, 1949. For nondurables, May orders topped April by 9% and a year ago by 14%.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Boa e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other Data.Labor Bureau (1935—100). lt—Long Tons. m—Millions. mpt—At Mills, (1935-39—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Reserve Board Data. np.—Without Compensation for Population growth. Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal rd, Instalment and Charge Accounts. st—Short Tons. t—Thousands. *—1941; November, or Week ended December 6.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

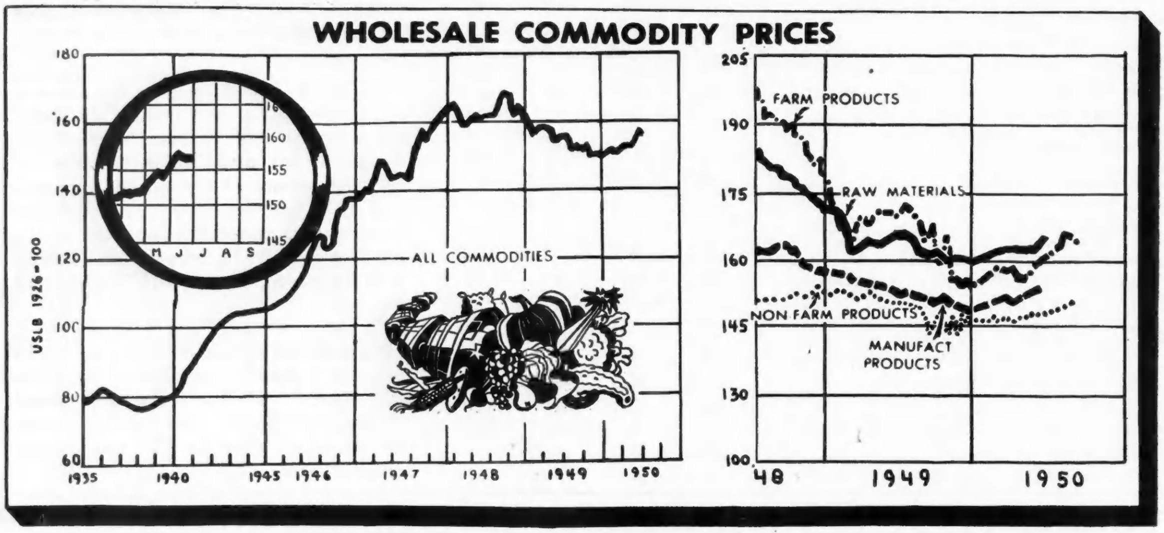
No. of Issues (1925 Cl.—100)	1950 Indexes High	Low	June 23	June 30
325 COMBINED AVERAGE	153.3	134.7	151.3	138.8
4 Agricultural Implements	207.5	182.6	198.8	182.6a
10 Aircraft (1927 Cl.—100)	238.8	170.8	213.3	218.4
6 Air Lines (1934 Cl.—100)	527.1	450.3	496.0	450.3a
7 Amusement	104.4	80.8	89.1	80.8a
10 Automobile Accessories	230.4	195.6	225.0	203.2
12 Automobiles	36.0	28.5	35.7	32.0
3 Baking (1926 Cl.—100)	23.3	19.4	20.0	19.4a
3 Business Machines	276.5	237.7	261.1	237.7a
2 Bus Lines (1926 Cl.—100)	176.6	153.0	159.4	153.0
5 Chemicals	304.2	256.4	291.0	271.5
3 Coal Mining	14.3	11.4	12.0	11.4a
4 Communication	61.6	41.9	58.9	51.8
9 Construction	64.9	57.4	63.1	57.4a
7 Containers	342.1	296.6	336.2	296.6a
9 Copper & Brass	100.9	80.3	97.8	89.5
2 Dairy Products	78.3	71.2	77.6	72.1
5 Department Stores	63.3	56.6	63.3B	60.5
6 Drugs & Toilet Articles	209.8	183.2	205.0	183.2a
2 Finance Companies	361.8	298.3	348.9	298.3a
7 Food Brands	181.4	166.4	176.9	166.4a
2 Food Stores	108.0	93.4	101.5	94.7
3 Furnishings	80.8	69.0	76.2	69.2
3 Gold Mining	753.5	596.8	617.5	596.8a

(Nov. 14, 1936, Cl.—100)	High	Low	June 23	June 30
100 HIGH PRICED STOCKS	96.03	86.35	95.90	88.68
100 LOW PRICED STOCKS	183.93	151.88	177.01	160.04
5 Investment Trusts	79.9	71.0	79.1	71.1
3 Liquor (1927 Cl.—100)	897.6	801.0	871.7	801.0a
11 Machinery	165.5	145.4	156.0	145.5
3 Mail Order	122.9	105.4	122.9B	109.5
3 Meat Packing	99.0	85.9	95.9	87.8
12 Metals, Miscellaneous	169.3	139.9	163.9	151.5
4 Paper	47.8	39.5	47.8B	41.9
30 Petroleum	287.4	241.8	286.9	263.5
27 Public Utilities	153.7	134.1	148.2	134.1a
5 Radio & TV (1927 Cl.—100)	35.3	18.1	32.6	29.4
9 Railroad Equipment	50.7	43.0	46.2	43.0a
24 Railroads	26.0	22.3	24.9	22.8
3 Realty	35.9	30.8	34.9	31.5
3 Shipbuilding	160.7	139.7	147.9	146.2
3 Soft Drinks	391.6	321.0	360.9	321.0a
15 Steel & Iron	120.9	96.1	120.9B	111.0
3 Sugar	53.9	48.7	51.0	48.7a
2 Sulphur	352.1	318.2	340.0	318.2a
5 Textiles	143.2	119.9	143.2B	132.3
3 Tires & Rubber	40.6	32.0	40.3	35.3
6 Tobacco	88.2	79.5	85.1	79.5a
2 Variety Stores	352.3	329.9	342.7	329.9a
19 Unclassified 1949 Cl.—100)	110.0	98.4	108.7	98.4a

B—New HIGH since 1948. a—New LOW this year.

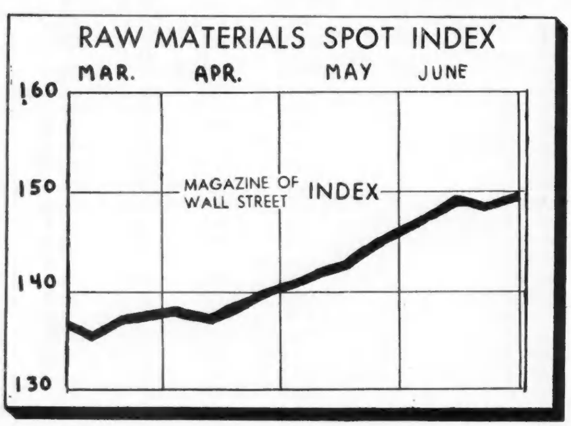
Trend of Commodities

The Korean war sparked sharp advances in spot and futures commodity price indexes during the week ended June 30 to new highs since the fourth quarter of 1948; but our own index of raw material spot prices halted a little short of its 1950 high, owing mainly to a one cent decline in lead following news that the Government had ceased buying this metal for stockpiling, thereby again exposing the market to the depressing influence of competing imports from abroad. Sweeping upturns took place in grains, rubber, pepper, coffee, vegetable oils, cocoa, hides, hogs, lard, sugar, eggs, cotton and wool. Grain markets were also strengthened by an increase in parity prices and a higher 1950 wheat loan. In event of an all-out war, there would be no serious shortages of wheat, corn, cotton and other commodities of which the Government now has ample supplies in storage, and farm production capacity for livestock and other foodstuffs is far greater than during World War II. As for sugar, world output this year will hit a record high—10% above pre-war 1935-9; but importing countries are taking about 15% less this year than in pre-war years. This explains why global planners are meeting to discuss a pact designed to stabilize world sugar markets through an export-import quota system. But surprise events of the future have a way of upsetting the best laid present plans of mice and men. Witness the global planners' excitement only a year ago over the then troublesome rubber surplus. In event of war, the most serious shortages would be in commodities produced heavily in the Orient, such as rubber and tin; but we now have large stockpiles of, and facilities for producing, both.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — Agust, 1939, equals 100

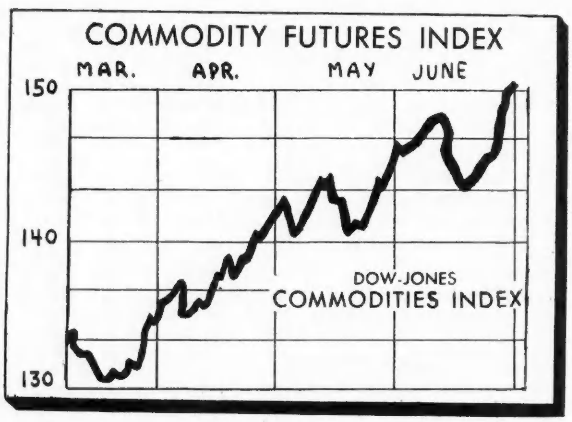
	Date June 30	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	269.0	264.0	268.3	246.7	248.3	229.0	156.9
11 Imported Commodities	271.2	264.3	269.6	251.3	256.3	235.4	157.3
17 Domestic Commodities	267.6	263.8	267.4	243.8	243.2	224.9	156.6
7 Domestic Agriculture	336.8	326.6	329.9	303.7	298.0	292.9	163.9
12 Foodstuffs	338.4	327.6	336.6	317.9	305.7	280.6	169.2
16 Raw Industrials	242.4	240.5	240.6	219.2	223.3	206.7	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	149.9	161.5	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	150.48	139.28	175.65	106.41	84.60	64.67	54.95	82.44
Low	131.21	122.45	117.14	93.90	55.45	46.59	45.03	52.03

Keeping Abreast of Industrial and Company News

Phillips Petroleum Company announces a new synthetic rubber, made without critically short styrene. The new rubber, called "PB", is made from butadiene, a method formerly considered of little value because the material was hard to process and had poor physical properties. As now produced, though, "PB" in limited road tests appears to be superior to GR-S synthetic rubber or natural rubber and may even be equal in quality to "cold rubber." It is made by a new process resulting from a research program supported by the Office of Rubber Reserve, which has planned extensive highway tests from tires made with PB. The production of butadiene, made from petroleum, can be stepped up rapidly to meet the present heavy demand for synthetic rubber.

The three new ultra-modern ferries now under construction to convey commuters between Manhattan and Staten Island are being powered by **Babcock & Wilcox** boilers to make them the fastest ever operated in the New York area. Each vessel will be equipped with three boilers designed to generate 28,000 pounds of steam per hour, and each boiler will be equipped with two oil burners to operate at a pressure of 300 pounds per square inch. Upon completion, the new ferries will carry 3000 passengers each across New York harbor at an expected speed of 18 knots, in addition to 38 vehicles. The vessels will be radar-equipped as a safety measure.

Production of food cans has increased 10 times in the last fifty years, from about 2 billion at the turn of the century to approximately 20 billion in 1949, according to the **American Can Company.** While per capita use of food cans was only about 26 in 1900, it had jumped to 130 last year, attesting to greatly improved quality of the foods packed as well as to their economical and more attractive containers.

The proven efficiency of **Hercules Powder Company's** chlorinated-camphene insecticide, toxaphene, has broadened market potentials so impressively that the company has announced plans to construct a second unit for its manufacture which should almost double present output of the insect killer. Shortly after the beginning of World War II, Hercules Powder developed toxaphene, using camphene derived from turpentine and reacted with chlorine as basic materials. The insecticide has proved so successful against all major cotton destroying insects, including the boll weevil, as well as against grasshoppers and army worms that the company has had to enlarge steadily its capacity from year to year. Since the market is mainly in the South and the raw materials are of southern origin, Hercules Powder Company has selected Hattiesburg, Mississippi, as location for the new plant.

When the **American Gas Association** convenes October 2 to 6 for its annual gathering at Atlantic City, many speakers of national renown will address the general sessions. In the current year, the increasing importance of natural gas to the gas industry will be thoroughly examined, with the numerous problems and potentials from the progressive changeover made subjects of special concern. A discussion panel devoted to these transcendent subjects has been allotted to the program for the opening session.

The new quarters of the nation's first industrial research facility, the **General Electric Research Laboratory,** are nearing completion in Schenectady, New York, and soon will be fully occupied. Construction of this revolutionary type of laboratory structure began in 1946. Exclusive of minor service buildings, the laboratory will have five units with a usable floor space of 185,000 square feet. A 300 million-volt synchrotron and other atom smashers will be installed in the largest building, together with a low-temperature laboratory where helium is liquified for studying effects at temperatures near absolute zero (460 degrees Fahrenheit below zero). The use of movable partitions makes the premises flexible to serve as may prove necessary under constantly changing conditions.

In contrast to the majority of industries that have tended to decentralize their facilities over a period of years, the steel group appears to have laid substantial emphasis on concentration. **United States Steel Corporation,** for example, half a century ago operated 446 old-fashioned sheet and tin plate mills at 43 locations. Currently, Big Steel has 34 modern units at six locations, produces annually four and a half times as much steel product as in 1901.

Harold Blancke, president of **Celanese Corporation,** predicts that chemical fibres may capture an important share of the domestic floor covering market which in the past has consumed more than 200 million pounds of clean wool. Rug merchandising in the future may be substantially based on these fibres, thereby making possible new and much improved products and opening new markets through increased durability and lower prices. As result of eleven years research and study to develop improved textile yarns for the rug and carpet industry, two fibres of Celanese have been found desirable for that use and are represented in the summer offerings of leading floor coverings manufacturers.

The world's largest research laboratory devoted to the development of safety equipment for all industries was recently dedicated in Pittsburgh by the **Mine Safety Appliances Company,** a concern that from a modest start more than thirty years ago has become the dominant manufacturer of appliances to assure

safety and health in every line of endeavor. Ned H. Dearborn, president of the National Safety Council, told about 400 assembled top industrial executives and specialists in industrial hygiene that the new laboratory represented science at its best and human purpose at its finest. Virtually every branch of science and engineering is utilized for developing protective equipment and instruments, and products by the hundred range from tiny first aid kits to a complete mobile laboratory for air pollution studies.

In the not distant future, **E. I. du Pont de Nemours and Company** will likely add another new synthetic textile fiber to its line, called Fiber V. Like nylon and "Orlon" acrylic fiber, Fiber V has high tensile strength and high resistance to stretching—both wet and dry. The electrical insulation properties are high and no weakening is caused by fungus, mildew or mold. Test of fabrics made from the new fiber reveals resistance to wrinkling, and that they can be easily laundered. Fiber V is not chemically related to nylon and was first developed in England where it bears the trade-mark "Terylene." United States rights to manufacture were acquired by the du Pont Company in 1946, and extensive tests thus far have been very encouraging.

As a result of stepped up operations following **Chrysler Corporation's** 14-week strike that ended May 8, the company managed to turn out an unprecedented number of 184,500 passenger cars and trucks by June 12, little more than a month later. In the first 24 hours alone after the strike terminated, 4977 vehicles rolled out of the plant. Despite the railroad strike that hampered operations by May 10, the enlistment of every available moving van and truck to run on temporary roads built over railroad sidings pushed daily production to an historic high of 8252 vehicles by May 26 and a total of 40,917 in the week beginning May 21.

Rubber paving surfaces will receive their most severe test in a stretch of experimental roadway recently laid on New York City's West Side Highway near West Twelfth Street, according to spokesmen for **Firestone Tire and Rubber Company.** More than 60,000 cars daily will drive over this section of rubber roadway. Firestone is helping Manhattan Borough officials supervise the project and various types of rubber are employed, including processed, synthetic and natural. Rubber paving surfaces may help solve the highway maintenance and construction problems confronting our states, is the belief of this rubber manufacturer; and to prove its contentions the company has made numerous actual road surface installations in other parts of the country where traffic conditions vary considerably. When properly mixed with asphalt, rubber makes roads last longer and reduces repair costs.

Five new modern diesel-powered towboats, each 108 feet long, are going to be added to the fleets of river vessels in the Pittsburgh district, replacing picturesque but obsolete stern wheel vessels, announces **Dravo Corporation,** a leading manufacturer in this field. The five new vessels will improve performance ability by more than 25%. It is interesting to note that while three prominent steel or coal companies are purchasing the new equipment, economies will be effected by employing uniform specifications, and deliveries will also be hastened. Dravco will build all the towboats on a sectional prefabrication assembly-line, the same technique employed by the company when constructing naval vessels during the late war.

United States parcel post window service will soon be mechanized in 24 cities and towns where post offices will replace stamps with postage meters furnished by **Pitney-Bowes, Inc.** The installations are part of a new contract for 300 special postage meters that will eventually be used in some 100 locations. Here is how the system works: the window clerk weighs your package, computes the fee, takes your money and touches a lever on the machine. Out pops a small printed label, gummed and automatically moistened, complete with exact postage and postmark. It is slapped on your package and the waiting line time is reduced by half.

The ultimate in bathing comfort, according to the **Bakelite Division of Union Carbide and Carbon Corporation,** has been made possible by a new inflatable bath lounge of durable vinylite plastic and designed for users of all ages. This bath aid has a comfortable seat, back support and headrest and is held firmly in place by suction cups on the bottom. The plastic is unaffected by water, soap, alkali, alcohol or temperature changes and comes in several colors.

Frank M. Porter, president of the **American Petroleum Institute** recently pointed out that the oil industry is fully prepared to meet all foreseeable military emergencies with which the nation might be confronted. Production of crude oil could be immediately stepped up to a daily average of 6 million barrels without injury to the producing formations. American interests in postwar have also developed tremendous new reserves in Canada, South America and the Middle East which are available to supplement domestic sources of supply and to assure that all military and essential civilian needs can be fully met.

A highly effective new drug, Camoquin, has been developed by **Parke, Davis & Company,** for the treatment of malaria, recognized as the disease of greatest economic importance in the world today. More than 13% of the world's population suffers from malaria each year, and it causes more serious illnesses than any other disease. World-wide mosquito control is an ideal that may require centuries to realize, but according to actual field tests of Camoquin in many countries, the new drug seems unsurpassed in its approach to the ideal curative and suppressor of this malarial plague that prevails on such a widespread scale. Camoquin has such a low toxicity that patients can take doses three times a day for five days, but any number of cases given the drug in India regained normal temperature by the end of the second day after a single dosage.

Prefabrication, a by-word in housing and other fields, has entered the petroleum industry in the form of "package" Thermofor Catalytic Cracking (TCC) units to assist small size refineries to produce high-octane gasoline under highly competitive conditions. **Socony-Vacuum Oil Company,** inventor of the TCC process, has just completed the design features of a little, inexpensive "package" TCC unit that should prove popular with small refiners which formerly had refrained from production of high-octane gas because of the high cost of essential equipment.

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1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
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5. Special rates upon request for those requiring additional service.

Owens-Illinois Glass Company

Please furnish progress report and earnings of Owens-Illinois Glass Company, dividends and outlook for the balance of the year. G. R., Belfast, Maine

Net earnings of Owens-Illinois Glass Company and wholly-owned subsidiaries for the twelve months period ended March 31, 1950, were $17,894,908 as compared with $11,958,763 for the twelve-month period ended March 31, 1949.

These earnings are equivalent to $5.85 per share for the current period as compared with $3.91 per share for the twelve-month period ended March 31, 1949 on the 3,056,874 common shares outstanding at the close of each of these periods.

Net sales and other operating revenues for the twelve months ended March 31, 1950 were $228,608,969, compared with $217,194,000 in the preceding twelve months.

The management attributes the encouraging rise in earnings to lowered costs due to better manufacturing efficiency, more effective cost controls and the favorable effects of large scale capital improvements made in recent years. Additionally, substantial research promoted the introduction of numerous new products, while diversification policies paid off in stabilizing sales despite decreased supply of container sales. As evidence of more satisfactory manufacturing efficiency, the company's operating margin last year expanded over 1948.

Among the new products introduced were Kaylo, insulating material, and Kimble television bulbs.

Dividends in 1949 amounted to $3.00 per share and $1.50 was paid in the first half of the current year.

Latest balance sheet revealed a strong financial position. Prospects for the company over coming months continue favorable.

U. S. Industrial Chemicals

I believe that U. S. Industrial Chemicals has diversified its business in recent years and while I know that 1949 fiscal year was unsatisfactory, please advise on recent net income and expansion program. , T. F. Scranton, Pa.

Net income of U. S. Industrial Chemicals for the fiscal year ended March 31, 1950 was $655,331. This is equivalent to $1.31 per share. This compared with a net loss of $2,391,093, or $4.79 per share for the preceding fiscal year.

Net sales for the year totaled $40,478,154, a decrease of approximately $10,350,000 from the preceding year, which was almost entirely attributable to lower selling prices, less than 5% of the difference being a result of lower volume. Lower average selling prices were noted in industrial alcohol, synthetic resins and chemical solvents, while the principal factor in the decline of volume was a reduction in sales of anti-freeze, due to last Winter's abnormally mild weather.

Other income, from service operations, investments and other sources amounted to $3,576,143, making a total gross income of $44,054,297.

Diversification of the company's products, raw materials and fields of activity, which were started in 1938, is still in progress. Ethyl alcohol and its derivatives, which at one time constituted more than two-thirds of the company's business, now represents less than one-fifth of total sales. New and more profitable markets for the company's insecticides appear to be developing and it is anticipated that sales volume of these products will increase.

Markets for resins, industrial alcohol and other chemicals are expected to be more profitable than in the past.

Expenditures of approximately $2,250,000 for plant expansion and improvements, including the completion of facilities at Brownsville, Texas, are anticipated during the ensuing fiscal year, but no outside financing is contemplated for the projected expenditures for capital additions. Additions to fixed assets during the year ended March 31, 1950 totaled $2,514,360.

The company's net worth at the fiscal year end was $28,903,931, or approximately $58.00 per share. Net current assets as of March 31, 1950 after taking into account the market value of securities and the unpaid balance of the long-term sinking fund notes, were $24.00 per share.

No dividends were paid in 1949 but 25c a share will be paid on August 1, 1950.

General Outdoor Advertising Company

Please furnish information as to operating revenues of General Outdoor Advertising Company, net income and financial position.
B. F., Evanston, Illinois

Gross revenues of General Outdoor Advertising Company for 1949 amounted to $25,872,327 compared with $25,252,947 for

1948, an increase of $619,380. Net profit for the year amounted to $2,830,448 compared with $2,584,-366 in 1948, an increase of $246,-082. In terms of stock, 1949 net profit amounted to $4.49 per common share as against $4.07 per common share in 1948.

For the first quarter of 1950, operating revenues were $6,007,-092 and net income amounted to $641,840, equal to $1.01 per common share. This compares with first quarter 1949 operating revenues of $5,914,146, net income of $639,431, equal to $1.01 per share. These earnings are on 593,100 common shares outstanding.

Balance sheet as of December 31, 1949 showed total current assets of $7,489,986 and total current liabilities of $3,116,107 leaving net current assets of $4,373,-880.

Dividends in 1949 were $1.30 per share and 70c has been paid thus far in the current year.

Company is the largest outdoor advertising system. Earnings record has varied widely over the years.

Thompson-Starrett Company

With the demand for building so strong, I was wondering whether Thompson-Starrett Company has improved its operations and if the company is now operating at a profit. Please present latest data. *B. E. Sandusky, Ohio*

A net income of $199,239 was reported by Thompson-Starrett Company for the fiscal year ended April 30, 1950 and this contrasts with a loss of $70,476 at the close of the preceding fiscal year. This is the first operating profit in six years for the company. The latest results marks the culmination of two and one-half years effort on the part of the new management to bring the company back to its former sound working basis. Other figures reported were a gross income of $979,392, compared with a gross income of $385,015 last year.

A total of $20,590,313 in construction work was executed during the past year—over two and one-third times the volume of work executed during the preceding year and the company started a new fiscal year with a backlog of $15,670,000 in jobs still under contract. The latter figure includes two additional contracts awarded to Thompson-Starrett, supplementing earlier contracts with the same clients and totaling $9,250,000 – one, a contract for the second unit of the new Jordan-Marsh Department Store in Boston, the other a contract with the City of New York for construction of a digester, aeration and settling tank system at the Owls Head Anti-Pollution plant in Brooklyn, New York.

No dividends have ever been paid on the common stock.

General Refractories Company

Please furnish information as to recent annual earnings, net working capital and dividends of General Refractories. *L. W., Stamford, Conn.*

Net income of General Refractories Company for 1949 amounted to $1,717,509 on sales of $30,726,580 which compares with 1948 net income of $2,814,-254 when sales amounted to $36,-655,335.

Per share earnings of $3.65 during 1949 compare with $5.98 for the previous year. The foregoing net earnings were after appropriating $222,104 to a reserve for contingencies during 1949 and $350,000 during 1948.

Demand for the company's products was considerably reduced during the latter part of 1949 as a result of unsettled conditions in the iron and steel industries, which are major refractories users.

As of December 31, 1949, net working capital amounted to $13,-046,054 and the ratio of current assets to current liabilities was 8.24 to 1. The net working capital at the close of 1948 was $13,406,-872 and the current ratio 6.38 to 1.

Total inventories including finished products, material in process, raw materials, supply and repair parts on December 31, 1949 were valued at $5,490,086 as compared with a value of $6,285,792 at the close of 1948. The decrease of 1949 over 1948 was accounted for principally by a reduction in inventory of raw materials.

The expansion and improvement program continued throughout the year 1949. During the year improvements and replacements amounted to $2,142,093 and $1,043,210 was reserved for depreciation, depletion and amortization. As of December 31, 1949 the unexpended balance appropriated for projects not yet completed amounted to approximately $1,018,000.

Net sales for the three months to March 31, 1950 were $8,120,-592 and net profit amounted to $676,624 equal to $1.44 per share and this compares with net sales for the first quarter of 1949 of $10,282,307, net profit of $924,-284, equal to $1.97 per share.

Dividends in 1949 were $2.00 per share and 50c per share quarterly has been paid thus far in the current year.

Seeger Refrigerator Company

I have been told that the refrigerator demand has increased in recent months and therefore, would be interested in knowing how Seeger Refrigerator Company fared and what this company's prospects are in coming months. *B. F., Des Moines, Iowa*

Net earnings of the Seeger Refrigerator Company in the nine months ended May 31, 1950 were $3,873,368 after provision for state and federal income taxes, compared with earnings of $2,-742,841 in the corresponding nine months a year before.

The earnings were equal to $3.52 a share on 1,100,000 shares of capital stock outstanding, compared with $2.49 a share on the same number of shares in the comparable nine months of the preceding fiscal year.

Sales in the latest period were $55,123,519, as against $52,017,-005 in the same three quarters a year ago.

Some shortages in sheet steel affected sales somewhat and company hopes to secure sufficient quantities shortly to meet production schedules.

Demand for company's products continues at a satisfactory level and a good volume of sales is anticipated in coming months.

Dividends in 1949 totaled $1.25 per share and this included an extra. 50c has been paid thus far in the current year.

Seegar manufactures household and commercial refrigerators, including cabinets, display cases and refrigerator units. Entire output is sold to four companies. It is the exclusive manufacturer of refrigeration units and cabinets for Sears Roebuck & Company, which markets them under the trade name Coldspot; and household refrigerator cabinets for Montgomery Ward & Company; and of commercial cabinets and refrigerated display cases for the Frigidaire Division of General Motors; and also produces about 50% of the refrigerator requirements of Admiral Corporation.

Manufacturing plants are owned in fee at St. Paul, Minnesota and Evansville, Indiana. A new building is under construction adjoining the Evansville plant.

Investment Audit of American Cyanamid

(*Continued from page* 419)

received do appear. Three of these associated companies, Southern Alkali Corporation, Southern Pipeline Corporation and Southern Minerals Corporation represent a stake of $3.68 million, with majority control resting with Pittsburgh Plate Glass Company. Jointly with Texas Company, International Paper Company and an affiliate of Atlantic Refining Company and of Standard Oil Company (N. J.) respectively, American Cyanamid also has an interest in three other associated ventures.

It is important to appraise the value of these partially owned companies in studying the earnings potentials of American Cyanamid, not only because such ownership is substantial but because it might lead to progressively increased income. In 1949, for example, combined net earnings of Southern Alkali, Southern Pipeline and Southern Minerals alone amounted to about $6.7 million, although only $1.65 million were distributed as dividends, of which American Cyanamid received a little less than half. Had the company included its equity in undistributed net earnings of associated companies in 1949, its reported net of $5.39 per share would have risen to $6.27, but the management conservatively shows them in segregated form.

The appended tabulation shows the progress of American Cyanamid Company over a ten year period, as well as the sharp sales and earnings spurt in the first quarter of 1950. In the space of a decade, volume has expanded more than 150%, accompanied by a rise of approximately 110% in net income. In the 1945-1948 period, the company's operating margins averaged around 6.5% compared with 12.4% in the preceding five years, although steadily increased volume made for a progressive uptrend in earnings. For five years through 1949, net income advanced consistently from a ten year low of $5.9 million in 1945 to $16.1 million in 1949, the latter establishing a peak of $5.39 per share. Dividend payments since 1940 have gradually risen from 60 cents a share to $2, and in the

first half of 1950 $2.375 was distributed.

This increased dividend liberality so far in the current year was not surprising in view of much improved operations. Volume of $72.7 million compared with $58.3 million a year earlier and was at a record annual rate of around $290 million. On enlarged sales, operating margins widened to 19.2%, pushing net per share up to $2.78, exclusive of undistributed earnings in associated companies. It seems apparent that American Cyanamid has gotten off to an excellent start in 1950 and that major credit for its performance should be given to the immense popularity of its new drug, Aureomycin, although its entire diversified line shares in this respect.

In appraising the market position of American Cyanamid shares, an advance from a low of 49 to a high of $76\frac{3}{8}$ in the first half of 1950 invites caution regardless of the fine showing by the company and its above-average bright prospects. Now that not only the price of aureomycin but of other chemicals as well has been reduced, operating margins may tend to narrow in coming months and the current high rate of earnings may not prove permanent unless volume continues its uptrend. However, if the company maintains its current momentum, the higher price for the shares might be justified, at least for the long pull.

It should be realized that chances for a full conversion of the two issues of preferred stock in due course are bright, especially as the conversion privilege of the Series A preferred has become quite valuable and that of the Series B preferred is also close to parity. Looking ahead, accordingly, it is possible that the number of common shares may rise to 4,360,000, on which annual earnings of around $30 million would equal about $7 a share. This however might prove too conservative in considering 1950, when earnings may exceed $10 a share. In either case a price-earnings ratio of 10 or lower for these very promising equities would seem inordinately low compared with those of other strong chemical concerns recently commanding a price-earnings ratio of nearer 15.

In the latest war scare break in the stock market, American Cyanamid shares dropped to 65 compared with a recent high of $76\frac{3}{8}$, but subsequent recovery was substantial, undoubtedly reflecting accumulation by investors confident of the company's sound position and encouraging potentials. Beyond much question, the shares deserve a place in conservative portfolio and if held for the long pull should prove a rewarding investment.

Where do Securities Stand Today?

(*Continued from page* 407)

the Radio & Television group which advanced 81%. Second was the Communications groups with a 40.5% advance, but this largely because the TV-flavor of International Telephone & Telegraph. Elsewhere sizeable advances, of around 25%, were registered by such groups as Aircraft, Automobiles, Steel & Iron, and Tires & Rubber. Lesser gains occurred in Auto Accessories, Copper & Brass, Paper, Petroleum, all exceeding the 12% rise of our Combined Average during the period. Other group figures, as charted on a preceding page, reveal the varying popularity of various industries during the latter half of the bull market.

There were declines, too, as charted, led by the Amusements group which dropped 12% and Gold Mining which was off 13%.

The selective nature of stock price trends has brought about seeming incongruities. Often price movements appear to have been influenced by other factors besides near-term business prospects. While the record breaking volume of building construction is one of the main pillars of the boom, the construction group since the start of the year advanced only 3.5%, far less than the average or even the majority of our 46 group indices.

Recent Declines

Our chart also reveals the degree of retracement among the various groups during the market break in the week between June 23 and June 30. Sharp declines were widespread, as indicated, but the Aircraft group came out ahead, an outstanding exception reflecting the prospect of heavy military orders. Similarly, the Construction group widened its gain, however moderately, from 3.5% to 6.2%. As far as Aircrafts are concerned, a corollary reason for their good showing was the fact that prices generally were more depressed at the start of the year than in most other sections of the stock list. To some extent this is true also of building shares.

Substantial declines occurred in such former upside leaders as Automobiles which lost about half their gains, Copper & Brass, Finance Companies, Chemicals, Petroleum, Steel, Tires & Rubber, and others. This reveals, in short, that it was the kind of market in which all stocks nosedived regardless of business prospects. Frequently those who formerly led the advance also registered the biggest losses. In fact, whereas as of June 23, only six of our group indices were down on the year, on June 30 fully twenty-one were down and the gains of the others —except aircraft and construction —were severely pared.

Selectivity promises to characterize future markets once the present unsettlement is over and calmer views prevail. Quite likely we shall then see trading emphasize shift to those groups which promise to gain most from whatever the future may hold in store. Prominent among them will be aircrafts and possibly shipbuilding, but certainly also Steels, Oils, Autos, Metals, Chemicals, even Rails — to mention but the more obvious groups which stand to benefit from increased military spending.

What's Ahead for Prices?

(*Continued from page* 410)

for consumers to buy ahead against the possibility of war, for they have been mortgaging their incomes increasingly for several years. It is very doubtful that the volume of consumer credit outstanding will increase much further. If taxes are going to be higher, many consumers will hesitate to maintain even their present debt load. It is surprising that so many people seem to have overlooked completely these essential differences between the present situation and 1940-1941.

The chances are, unless this develops quickly into World War III, that the moderate increase in Government spending for defense presently envisioned will serve primarily as a counter deflationary influence rather than as an inflationary influence. The downward pressure on the commodity price structure during the rest of this year and into early 1951 at least is likely to be so great that it will take more than a few billion dollars of additional Government spending to offset it. There could be periods of distinct price easiness. War has not always stimulated business and prices, it should be remembered. The outbreak of war in Europe in 1914, coming after several years of good business, acted as a price depressant for some time.

Unless defense spending is stepped up beyond the foreseeable needs of a "limited war," we should think that real price inflation is not in the cards as yet. And if any such threat were in the offing, it would quickly be countered by reimposition of price controls.

New Wave of Stock Splits Ahead?

(*Continued from page* 427)

with about 9.7 million shares outstanding. The way at least has been paved for a further subdivision, even on a modest basis or through a stock dividend.

It would seem logical to expect a split-up in due course of American Can Company shares, but action in this respect may hinge on when and how the company works out a long term financing plan. For the fourth successive year, earnings advanced markedly, in 1949 reaching $10.02 per share, of which only 40% or $4 per share was distributed as dividends. Substantial retention of earnings last year, plus funds available from depreciation accounts came within $4 million of financing the $30.4 million improvement program in 1949, and in the current year closely similar circumstances will prevail.

1950, though, should mark the end of all important outlays for plant and equipment and not much financing would be needed to build up slightly depleted working capital. Settlement of the financing problem, a relatively simple matter, should enable American to distribute a larger share of earnings, as during the company's long history payments have averaged 67% annually. In this event, a split-up of the common would not only tend to stabilize market prices (1950 range; high—120⅜, low—105⅛) but expand the number of stockholders in this sound enterprise.

A Railroad Candidate

As a market leader in the rail group, the high grade shares of Atchison, Topeka & Santa Fee Railway have been subject to considerable speculative activity because of their potentials for a stock split. This road reported net earnings of $18.06 per share in 1949 and paid $8 a share in dividends on the common. The rapid growth of the territory served enhances the outlook for continued high level earnings.

In these days when the railroads are hard pressed by Government regulations and by labor unions, it could seem wise to the management to attract as many new stockholders as possible, a goal somewhat hard to attain with the stock often selling well above $100 a share and quite volatile in price. Recent price of 109 compared with a 1950 range of high—121¾, low 100⅛.

From a statistical angle, the shares of American Petroleum appear due for a split-up before too long. In 1946, when the price range prior to May 21 was high—178, low 128¼, the shares were split 2 for 1, effective on that date. Since then, the company's assets expansion has been dynamic, while earnings climbed to a record high of $14.35 per share in 1948, receding (perhaps temporarily) to $9.12 in 1949. Dividends totalling $5 per share were paid last year.

Operations are concentrated on the production of crude oil and natural gas, derived from more than 2400 productive wells. This factor has tended to stabilize operations over a long term of years, as indicated by an unbroken dividend record since 1922. As the

shares have ranged in price from a high of 126 in 1950 to a low of 100½—they recently sold at 113—it is obvious that they would carry more appeal to investors if they were subdivided and made available at a lower price, less subject to wide swings.

Pricewise, there are a number of other situations where for several reasons a stock-split might appear logical, such as Coca Cola, selling at 140, Minnesota Mining & Manufacturing (112), B. F. Goodrich (86) etc.

In an appended tabulation, we present statistical data on shares proposed for split during the second half of this year. In another we show price trends of shares which were split during the first half. The latter are of particular interest. Most of these shares were split at a time when the stock market generally was close to its high for the recent bull movement. Latest prices, though reflecting the recent severe shake-out, in most cases show relatively moderate declines from their pre-split basis.

Is Pessimism Toward Railroads Justified?

(*Continued from page* 425)

ILLINOIS CENTRAL: Since 1941, share earnings have ranged from a low of $4.67 in 1946 to a peak of $17.68 in 1943. For the current year the road may do as well as in 1949 when net income came to $11.20 a share. Hence, with litigation on behalf of preferred stockholders settled in accordance with the road's dividend policies, common payments may be increased later on over the present indicated $3.00 annual basis, or an extra could be distributed after complete 1950 results can be properly appraised.

Marketwise, Illinois Central common has shown up to considerable advantage this year, participating freely on all recoveries. With finances greatly improved and the debt structure simplified through open market purchases and exchanges, the common appears to be one of the more attractive speculative rails, if obtainable on concessions.

NEW YORK CENTRAL: With the exception of 1946, when a deficit of $1.62 a share was sustained, Central has been able to show earnings for its stock in each year since 1939. This year, it is estimated, the road will show around $2 a share, as against $1.51 reported for 1949. However, it is not clear whether directors will find resumption of dividends advisable in view of the ever-present need to maintain a strong financial position to meet large debt requirements.

Although the stock has recently been available not much above its low of recent years, it offers no particular attraction at this time. On the other hand, already existing positions may be maintained in the hope of a better liquidating level.

PENNSYLVANIA: Because of the fact that dividends have been paid uninterruptedly since 1847, and because finances have remained uniformly strong over recent decades, the stock offers rather good value, especially when the present price level is considered. Pennsylvania's earnings have turned-up rather sharply following a poor first quarter and 1950 net may well reach $2 a share, if present indications are sustained. This would compare with only $0.95 a share in 1949. Hence, an additional dividend is a probability.

SOUTHERN PACIFIC: In relative grading, Southern Pacific possesses about the same quality as Atlantic Coast Line—it is one of the better grade rails. Earnings have fluctuated widely in recent years and in 1950, some improvement is expected to be realized over the $8.08 per share net of last year.

Despite indications of good coverage for the $5 annual dividend, the market nevertheless has at times suggested some doubts and so the stock has been available on a liberal yield basis. In view of this, Southern Pacific is not overpriced in the prevailing 51-53 price zone, particularly when other factors such as finances, general position and growth potentialities are considered. The latter are impressive since the railroad operates in one of the nation's fastest-growing territories, both as to population and industrialization.

Earnings should be well sustained by heavier shipments of citrus fruits and perishables, along with a sizeable movement of lumber, steel, autos and building materials to feed the territory's growing economy. Savings from new equipment and the demonstrated ability of the management to control costs will play an important role in determining net profits, and a larger dividend from the 50% owned Pacific Fruit Express will also aid results.

SOUTHERN RAILWAY: This year, Southern Railway is expected to show share profits of between $9 and $10, a substantial gain from the $6.87 reported for 1949. Consequently, the prevailing quarterly dividend ($0.75), reduced from $1 in January, seems secure by a wide margin.

Although Southern is highly sensitive to both coal and agricultural conditions, nevertheless it has bolstered its traffic position in recent years. However, near-term debt maturities are a problem which must be solved and for this reason speculative aspects predominate. At the current level, though, the issue has discounted just about all elements of a debatable nature.

TEXAS & PACIFIC: Moderate funded debt of $64,922,000 and 237,030 shares of $5 non-cumulative preferred stock precede the 387,550 shares of common. All preferred is owned by Missouri Pacific, as well as 59.2% of the common.

In view of these capitalization traits, the common is highly volatile in market action and unsuitable for the average investor. However, Texas & Pacific offers a good return from the reasonably secure $4 annual dividend and share net in 1950 will not be much under the annual average of the last decade, with a balance of more than $10 a share indicated. Traffic and gross revenues are largely influenced by activity in the oil industry and development of the Southwest.

UNION PACIFIC: The common stock possesses large earning power and its dividend is well protected by impressive finances and other resources. Outside income, largely from oil and gas has become increasingly important in recent years. At this time it is estimated that 1950 profits will be about $12 a share compared with $10.26 in 1949.

In view of the present, more satisfactory situation, the $5 regular dividend probably again will be supplemented by an extra. The common has distinct appeal for investment purposes, especially in portfolios where no rail representation exists.

Another Look At The Budget

(*Continued from page* 411)

also start worrying about the prospect of increased taxes. Because of that, Government should immediately begin to think about instituting the greatest possible degree of administrative economy, and of caution in embarking on new and costly social schemes. Certainly if Korea means that our military expenditures must go up, as it does, it also calls loudly for better budget planning and a return to fiscal sanity. After all, inflation and deficits are no way to build strength, and strength we need.

The war threat serves as a timely reminder that we had no business operating the Federal Government at a deficit in prosperous postwar years. With heavier arms outlays impending, the alternatives are: (1) to increase the deficit further, which would provide additional inflationary stimulus at a time when it certainly is not needed by the economy. (2) Cut unessential Government spending, even raising taxes somewhat if necessary to balance the budget. The latter is the unpopular course but the only one to safeguard our economic health.

Being politically unpopular, it is not likely to be followed. Though Secretary Snyder has mentioned the prospect of possible need for higher taxes, nothing was said about greater economy in Government which might render tax boosts unnecessary. To date at least, Washington still has one eye on Korea and the other on the November elections. Yet barring a general war, chances are we could come pretty near to a balanced budget—without raising taxes—if sensible fiscal and spending policies would prevail.

Need For Fiscal Security

Sane fiscal policies call for utmost economy in Government and avoidance of tax boosts which are not absolutely necessary. If the budget situation teaches us anything at all, it is our great dependence on a high level of economic activity. This very dependence is a telling argument against higher taxes unless absolutely essential as in case of total war, for raising taxes invariably undermines initiative. Sensible taxation on the other hand is a distinct incentive to business and tends to increase rather than decrease the Government's tax take.

Sensible credit policies are no less important and right now they call for a damper on the credit boom to minimize the inflationary impact of stepped-up defense spending. Yet so far at least, Treasury policies have consistently rejected the idea of a moderate rise in interest rates, as proposed by the Federal Reserve Board, in order to restrain lending policies. The Treasury, which has the last word, questions whether such a rise would hit hard enough to justify raising the Government's interest bill.

Thus the old cleavage between these two agencies continues. Still, with heavier arms spending superimposed on an economy already going full blast, credit restraints may yet become necessary. It would be far better than to attempt, at a later date, to meet inflationary pressures by reimposition of controls.

Such pressures must be anticipated. In fiscal 1950, this country spent more than $15 billion on its own defenses and those of its allies. Even before the Korean crisis, such outlays in fiscal 1951 were estimated around at least $17 billion, depending on the tempo of European rearmament. No one knows what it will actually come to now that Korea has forced a speeding up of the rearmament time table, and quite likely a broadening of its scope. It may be well above $20 billion, of which perhaps as much as half may be for military "hardware" – aircraft, ships, ammunition, tanks etc. While the amount may look small in relation to our national product of some $260 billion, it may exert considerable strain in areas where strain and bottlenecks already exist.

The size and composition of the next budget thus assumes heightened importance not alone from a fiscal viewpoint but from an economic and business standpoint as well.

Has Korea Killed the Bull Market

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we are unable to see anything better for the market than trading-range rallies, as permitted by the news, for the near future; while the medium-term prospect has become much more conjectural than it was before the American move into Korea. If you are overheavy in speculative holdings, both safety and peace of mind call for paring them down on even small rallies. If you hold good-grade stocks and reasonably adequate reserves, sit tight.—Monday, July 10.

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